

WH Smith PLC

Annual report and accounts 2011



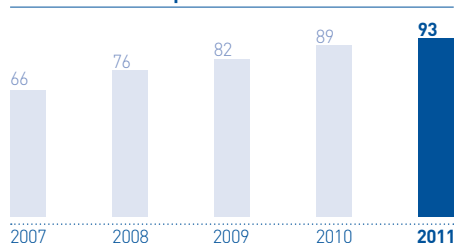


Find out more at www.whsmithplc.co.uk

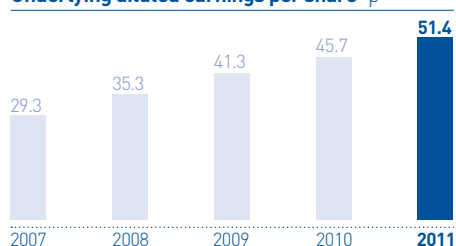
About us

- > WH Smith PLC, one of the UK's leading retailers, is made up of two core businesses – Travel and High Street.
- > We have a presence in a wide range of locations including high streets, shopping centres, airports, train stations, motorway service areas, hospitals and workplaces, primarily in the UK, and with a growing international business.
- > WHSmith reaches customers online via www.whsmith.co.uk and its specialist personalised cards and gifts website, www.funkypigeon.com.
- > Overall WHSmith employs approximately 16,000 staff, primarily in the UK.
- > WH Smith PLC is listed on the London Stock Exchange (SMWH) and is included in the FTSE 250 Index.
- > A commitment to the principles of corporate responsibility is at the heart of WHSmith. We continue to be ranked highly in the Business in the Community's Corporate Responsibility Index in recognition of our performance.

Profit before exceptional items and taxation £m



Underlying diluted earnings per share¹ p



¹ Profit after tax and before exceptional items – diluted.

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Group at a glance

WH Smith PLC is one of the UK's leading retailers and is made up of two core businesses – **Travel** and **High Street**. Our goal is to be Britain's most popular bookseller, stationer and newsagent.

Travel – 2011 Highlights

- > Travel sells a tailored range of Newspapers, Magazines, Books and Impulse products for people on the move, and a broader convenience range in hospitals and workplaces.
- > Our objective is to grow the business by improving our customer offer, winning new contracts, and by developing new formats and channels.
- > During the year, Travel delivered another year of record profit¹ performance, with further progress in developing our international business.
- > The business operates from 561 units (2010: 516 units) mainly in airports, railway stations, motorway service areas, hospitals and workplaces. 32 units (2010: 17 units) are in non-UK locations.
- > Units range from 90 square feet to more than 6,000 square feet, with a total of 0.5m square feet of selling space, excluding motorway service areas, as at 31 August 2011 (2010: 0.4m square feet).

Sales

£455m

2010: £452m

Profit¹

£57m

2010: £53m



Stores

561

2010: 516

Average store size

1,000 sq ft

¹ Profit from trading operations is stated after directly attributable share-based payment and pension service charges and before allocation of central costs, interest and taxation.

High Street – 2011 Highlights

- > High Street sells a wide range of Stationery, Books, Newspapers, Magazines and Impulse products, as well as a small range of Entertainment products.
- > Our objective is to be Britain's most popular stationer, bookseller and newsagent.
- > During the year, High Street delivered a resilient performance as it continues with its strategy to focus on its core categories, whilst optimising margins, tightly controlling costs and delivering the retail basics.
- > We have a total of 612 High Street stores (2010: 573 stores), located in almost all of the UK's major high streets.
- > Stores range in size from 777 square feet to more than 23,000 square feet, with a total of 3.1m square feet of selling space as at 31 August 2011 (2010: 3.0m square feet).

Sales

£818m

2010: £860m

Profit¹

£52m

2010: £51m



Stores

612

2010: 573

Average store size

5,000 sq ft

¹ Profit from trading operations is stated after directly attributable share-based payment and pension service charges and before allocation of central costs, interest and taxation.

Chairman's statement

I am pleased to report another good year for the Group, despite the challenging economic conditions. We had not been anticipating any improvement in the consumer environment during the year and we planned accordingly. The Group's performance demonstrates our resilience and ability to deliver in a tough trading climate as we continue to grow our Travel business, strengthen our core categories in the High Street and create value for shareholders.

The Group remains highly cash generative with a strong balance sheet as we continue to focus on profitability and cash generation. Group profit before tax was four per cent ahead of last year at £93m. Total revenue for the Group was down three per cent at

The Group's performance demonstrates our resilience and ability to deliver in a tough trading climate

£1.27 billion, with like-for-like (LFL) sales down five per cent. Free cash flow¹ was strong at £96m. This performance has led the Board to recommend a final dividend of 15.3p. During the year we have also returned £55m of cash to shareholders via a share buyback. On 31 August 2011 the Company also announced its intention to make a further return of up to £50m of cash to shareholders via a share buyback.

The Travel business has delivered further profit growth despite continued soft passenger numbers. Travel's customers were inevitably impacted by the weather pre-Christmas and the economic climate more generally. However we have continued to grow, demonstrating the strength of the business model. We have made further good progress in both our established and newer channels. We continue to identify opportunities for growth in the UK, opening 35 new units during the year including four units under the Funky Pigeon brand. Internationally, the WHSmith brand and offer have been well received and we have demonstrated that we can add value and deliver improved performance. We now have 32 units open in international locations, including airports, railway stations and shopping malls, and are pleased with the progress in this growing business.

High Street has delivered a resilient performance as we continue to make progress with our strategy to rebalance the mix of our business by building authority in our core categories, one example being the development of our online personalised greetings cards offer through the Funky Pigeon brand. Margin optimisation and tight cost control are an ongoing focus, and this was particularly true in the poor weather conditions pre-Christmas. In October we announced our plans to deliver cost savings during the year and we exceeded these plans by £3m, achieving total cost savings of £14m in the year. The business continues to be highly cash generative and delivered profits² up by two per cent. We continue to invest in the High Street estate and opened 39 new stores during the year, including the stores acquired from the British Bookshops and Stationers chain.

¹ Net cash flow from operating activities adjusted for capital expenditure, pension deficit funding, and net interest received.

² High Street and Travel operating profit are stated after directly attributable share-based payment and pension service charges and before central costs, interest and taxation.

My sincere thanks go to our management teams, staff and suppliers, especially during the pre-Christmas snow, when they worked hard to react quickly to changes in trading conditions and maintain the best possible service for our customers. Without their ongoing loyalty and support throughout the year, we could not have achieved these results.

Our Corporate Responsibility (CR) programme continues to help manage risk, identify operational efficiencies and new opportunities. As a leading stationer, forest sourcing remains a focus and we now source 72 per cent of our own brand timber and paper products from sustainably managed sources, with an increase in the number of products now showing the Forest Stewardship Council logo. Our efforts in all areas of CR continue to be recognised in the Business in the Community CR Index, where we are delighted to have been awarded the Platinum ranking for the fourth year running.

This year saw changes to the Board. John Barton, who had served as a non-executive director for 12 years, retired from the Board on 10 June 2011. On behalf of the Board, I would like to thank John for his immense contribution to the Group. Jeff Harris who joined the Board on 10 June 2011, brings extensive retail and finance expertise and both I and my colleagues on the Board are very pleased to be working with him.

Whilst we continue to expect the economic environment to remain challenging, we believe that the Group is well-positioned for the year ahead and we remain focused on implementing our strategy.

Walker Boyd
Chairman

13 October 2011

Directors' report and business review

WHSmith intends to build on its position as the UK's most popular stationer, bookseller and newsagent by continuing to grow its Travel business and delivering its High Street plan.

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

Principal activities

The Company, one of the UK's leading retail groups, is made up of two core businesses – Travel and High Street. Travel sells a tailored selection of Newspapers, Magazines, Books and Impulse products mainly in airports, train stations, motorway service areas, hospitals and workplaces; and High Street sells a wide range of Stationery, Books, Newspapers, Magazines and Impulse products and a small range of Entertainment products.

WHSmith's outlets are frequently the first choice for people buying our products on the high street and we are a trusted convenience retailer for customers at travel locations. We have an extensive store portfolio operating from 561 Travel units (including franchise units) and 612 High Street stores, with leading positions in Stationery, Books and Magazines. Overall, WHSmith employs approximately 16,000 staff, primarily in the UK.

WHSmith also reaches customers online via www.whsmith.co.uk and its specialist personalised cards and gifts website, www.funkypigeon.com.

The Company is listed on the London Stock Exchange (SMWH) and is included in the FTSE 250 Index. More information about the business is available at www.whsmithplc.co.uk.

Business objectives and strategies

WHSmith intends to build on its position as the UK's most popular stationer, bookseller and newsagent by continuing to grow its Travel business and delivering its High Street plan.

We aim to improve the Company's profitability and cash flow generation, delivering sustainable returns to shareholders. We believe that a concentration on these factors will be reflected in a total shareholder return that compares well with our peer group of equivalent listed companies.

We invest where we believe we will achieve a return on investment above our cost of capital. While external economic and other factors might affect us in the short term, we believe that most of the markets we are focused on will deliver sustainable returns.

Travel is focused on delivering value to shareholders through organic growth in its existing outlets, securing new contracts, trialling new formats, increasing average transaction value and making improvements to trading efficiency.

The High Street plan concentrates on building on our authority in core categories, optimising margins, controlling costs and ensuring we deliver the retail basics. High Street continues to make significant progress in the delivery of its plan.

We aim to act responsibly towards all our stakeholders, including customers, suppliers, business partners, employees and the communities in which we operate. Our annual Corporate Responsibility report is available at www.whsmithplc.co.uk/cr, with a summary of our approach on pages 20 to 21 of this report.

Chief Executive's review

This year, the Group has delivered another good profit performance. Both businesses continued to create value through their distinct strategies, with Travel delivering record profit in the year and further profit growth and strong cash generation from the High Street.

During the year, we have delivered another good profit performance across the Group, now our seventh consecutive year of profit growth in what has been a challenging time for retailers generally. This level of consistency is seen in both businesses, and whilst they have different strategies, they both continue to deliver profit growth and good cash generation. Travel delivered another record profit performance, with High Street delivering its seventh year of consistent profit growth.

The Group continues to be highly cash generative and has a strong balance sheet. This strong position enabled us to announce on 31 August 2011 our intention to return a further £50m of cash to shareholders via an on-market share buyback. We are proposing a final dividend of 15.3p, this makes a full year dividend of 22.5p, an increase of 16 per cent on last year. We continue to invest in the business and in new opportunities, as well as returning cash to shareholders through both our progressive dividend policy and share buybacks. Since the 2007 financial year we have returned over £360m to shareholders, over half the current market value of the Group. Going forward, the cash generative nature of the Group will be a key driver of shareholder value.

The Group has a strong and consistent record of profit growth as well as cash generation. Our profit performance demonstrates the Group's relative resilience in the current climate. In High Street our average transaction value is relatively low which means the business is less impacted than higher ticket retailers in times of economic uncertainty. In Travel, our turnover-related rental contracts give us a partial profit shield. WHSmith has consistently demonstrated its resilience and ability to grow profits and generate cash in varying trading environments. As a Group we are well-positioned for future growth when the economy recovers.

Group summary

Group profit from trading operations¹ increased five per cent on the prior year to £109m and the Group generated profit before tax of £93m (2010: £89m), an increase of four per cent on the prior year.

Total Group sales were £1,273m (2010: £1,312m) with LFL sales down five per cent. Travel sales grew by one per cent to £455m, down three per cent on a LFL basis. High Street sales were down five per cent at £818m and down six per cent on a LFL basis (excluding Entertainment LFL sales were down three per cent).

Travel delivered another good performance, with operating profit¹ increasing by eight per cent to £57m, sales up one per cent and a further improvement in gross margin. Travel is well-placed for recovery when the economy improves and passenger numbers return to growth. We continue to identify further space opportunities and have opened 35 units in the UK with a further 35 planned for 2011/12. We have opened or won 60 units in our growing international business, with 15 opened in the year and a further 25 planned to open during 2011/12.

High Street continues to deliver consistent profit growth and strong cash generation with operating profit¹ of £52m, up two per cent on the prior year. We continue with our strategy to rebalance the mix of the business towards our core categories, whilst reducing our presence in entertainment. Cost savings of £14m were delivered, £3m ahead of plan. A further £11m of cost savings have been identified making a total of £25m of cost savings over the next three years.

Earnings per share² increased by 12 per cent to 51.4p (2010: 45.7p). This reflects the increase in profit, a lower basic weighted average number of shares in issue following the share buyback, and a decrease in the effective tax rate from 23 per cent to 21 per cent.

The Group remains highly cash generative and has a strong balance sheet. Net funds were £41m at 31 August 2011. Group free cash flow³ was £96m (2010: £89m). The Group has a committed multi-currency revolving credit facility of £70m through to January 2016. During the year we completed a £55m return of cash to shareholders.

¹ Group profit from trading operations and High Street and Travel operating profit are stated after directly attributable share-based payment and pension service charges and before central costs, interest and taxation.

² Diluted.

³ Net cash flow from operating activities adjusted for capital expenditure, pension deficit funding and net interest received.

Review of operations: Travel

The Travel business is focused on delivering value to shareholders through organic growth in its existing outlets, securing new contracts, trialling new formats, increasing average transaction value and making improvements to trading efficiency.



Nature of business and markets

The Travel business trades under the same brand as the High Street business and operates 561 units, mainly in airports, railway stations, motorway service areas, hospitals and workplaces, primarily in the UK. Of the 561 units, 136 are operated under franchise agreements. Travel stores sell a more tailored range of products than High Street stores, to cater for people on the move or in need of a convenience offer. Travel's typical customer has less time to browse than the High Street customer and is more interested in reading materials for a journey as well as purchasing food, drink and confectionery. Consequently, there is a limited demand for stationery and entertainment products and the stock and format of each Travel store reflects this.

Due to their location and convenience nature, Travel stores are, on average, significantly smaller than those in the High Street portfolio. At 31 August 2011, Travel operated from a total of 0.5m square feet of selling space, with units ranging in size from 90 square feet to more than 6,000 square feet. Of the 561 Travel units, 142 are in airports, 125 in railway stations, 119 in motorway service areas (most of which are franchise units), 111 in hospitals and 32 in locations such as bus stations and workplaces. 32 units are outside the UK, for example in the Republic of Ireland, Denmark, India, Australia and Oman.

Travel has a separate operating structure and management team from High Street, reflecting the distinct operational and strategic challenges of the two businesses. Travel stores are typically in higher footfall locations than High Street stores, resulting in higher average rents, with rents paid as a percentage of sales (subject to minimum guarantees). Travel is less affected by the Christmas trading period. Increased passenger traffic during the summer holiday season, particularly in airports, contributes to a summer peak in sales.

Performance

	2011 £m	2010 £m	Change %	LFL % Change
Revenue	455	452	1	(3)
Operating profit¹	57	53	8	

¹ Group profit from trading operations and High Street and Travel operating profit are stated after directly attributable share-based payment and pension service charges and before central costs, interest and taxation.

Growth drivers

The Travel business offers opportunities for expansion in each of its channels and continues to win new contracts in airports, railway stations, motorway service areas, hospitals and workplaces. Despite soft airport passenger numbers, medium-term forecasts suggest that passenger numbers in Air will return to growth. Travel is well-positioned to benefit when the recovery comes.

The business continues to develop other store formats such as specialist bookstores, a tailored workplace format and specialist stationery stores under the Funky Pigeon and WHSmith brands. We continue to grow our international business using different operating models: directly run, joint venture and franchise. As at 31 August 2011 we operated 32 units in international locations, and have won a further 28.

Competitive position and strengths

The Travel business is impacted by geopolitical events, war and acts of terrorism, which have from time to time contributed to a reduction in commuter and travelling customer traffic and a heightened apprehension around rail and air travel. Closure of routes, both planned and unplanned, such as strikes and weather-related disruption, as well as other factors affecting passenger traffic, can also affect operating results.

Travel faces competition in its product categories primarily from other retailers in rail, air, motorways, hospitals and workplaces. The growth of these retailers may take market share from Travel and have a negative impact on revenue and profit.

Travel has significant competitive strengths. Its business model is made up of three elements: a compelling customer proposition with a widely recognised and respected brand, a strong track record with landlords, and the ability to translate the fundamentals of the model to other formats and channels. The business also has prime locations in each of its main channels; high levels of customer footfall; purchasing and sourcing scale; and an experienced senior management team. Considering all these factors, the Board believes that Travel is well-placed to create shareholder value by delivering long-term profit growth and strong cash generation.

Performance review 2010/11

Travel delivered a record profit performance despite continued soft passenger numbers and the tough economic climate. This demonstrates the strength of the business model which enables us to grow even in difficult economic conditions. Operating profit¹ increased by eight per cent to £57m (2010: £53m) due to higher sales, an increase in gross margin and a focus on cost control. We expect passenger numbers to increase in the medium term and are well positioned when the economy improves and passenger numbers increase.

Total Travel sales grew by one per cent driven by new business. LFL sales were down by three per cent, reflecting soft passenger numbers. Gross margin increased by around 140bps during the period, due to good category mix management and further buying improvements. We continue to identify further opportunities for growth in the UK and have opened 35 units in the period with a further 35 planned for 2011/12.

In our Airport stores we saw LFL sales down three per cent. Air passenger numbers remain soft overall as expected. Airports with a higher business travel mix are performing better than other airports. We also continue to see a stronger mix of overseas passengers coming to the UK versus UK departing passengers. We expect these trends to continue this year and have planned accordingly. Medium-term, all the forecasts suggest that passenger numbers will return to growth and we are well positioned when recovery does come.

During the year, we opened seven new units in Air and have plans in place to open a further four units in the year ahead. Even in a tough trading climate we continue to invest in our estate and to grow. For example, during the year, after extensive trials, we began a phased roll-out of self-service tills in our big airside units with the aim of improving queuing and managing costs.

Review of operations: Travel continued

In Rail LFL sales were down four per cent overall with London mainline stations down three per cent and regional rail down six per cent. This trend, showing London is a little more insulated from the current economic conditions, is one we continue to see and is reflective of the picture we also see in Air. We successfully completed refits of 13 major units however we continue to see disruption in a number of mainline stations such as King's Cross as station refits continue in readiness for the Olympics in 2012. We opened seven new units in Rail during the year and plan to open a further five units in regional railway stations during 2011/12.

Over the last few years we have established a strong presence in the Hospital channel and have consistently expanded our store base here. LFL sales in Hospitals were flat, being impacted less by the current economic slowdown than some of our other channels. Our understanding of the needs of this channel have also improved and we continue to improve our range and offer. During the year we opened nine new hospital units and we now have 111 units open, up from only seven in 2007. For the current year, we expect to open approximately ten new units.

In the Workplace channel we also continue to grow. We opened eight units in the year and now have 15 units. We would expect to open approximately eight new stores in the current year.

Following the success of the Funky Pigeon brand online, we have started to trial standalone Funky Pigeon stores in high traffic urban locations. At the end of the year, we had opened four stores and we plan to open a further five stores in the current year.

In our International markets, the WHSmith brand and offer continue to be well received and we have demonstrated we can add value and deliver improved performance in each location. We continue to make good progress in a number of regions, including Australia, India and the Middle East. On 13 October 2011, we announced a further 13 new units: two in Dublin, two in Stockholm, seven in Hyderabad and two in Dubai. Ten of these new units are in Air and, with the exception of Dublin, will operate under franchise agreements. We now have 60 international units either open or agreed, including a small number of units in rail, shopping malls and hospitals.

We will continue to grow our international business in a low risk and pragmatic way, utilising our different operating models: direct lease, franchise and joint-venture. Of the 60 units we have already opened or won, around 65 per cent are franchise, around 25 per cent are direct lease and the remainder are joint venture.

In total, the Travel business now operates from 561 units, including motorway service area franchise units and coffee shops. Five units were closed, primarily due to landlord redevelopment. We renewed 43 contracts and completed 27 refits during the year. Excluding franchise units, Travel occupies 0.5m square feet (2010: 0.4m square feet).

Review of operations: High Street

The High Street plan concentrates on building authority in our core categories, optimising margins, controlling costs and ensuring we deliver the retail basics.

Nature of business, market and competitive position

The High Street business operates 612 stores with an extensive reach across the UK and a presence on nearly every significant UK high street. At 31 August 2011, High Street operated from a total of 3.1m square feet of selling space, with stores ranging in size from 777 square feet to more than 23,000 square feet.

High Street sells a wide range of products, which are divided into four categories: Stationery (including greetings cards), Books, and News and Impulse (including newspapers, magazines and confectionery), as well as a small range of Entertainment products in some stores. High Street's trading is seasonal, peaking at Christmas, with other peaks at Easter and in August and September for the 'Back to School' range.

The online retail business is operated by High Street and sells a range of Books, Stationery, Magazines and Gifts through its website at www.whsmith.co.uk and personalised cards and gifts through www.funkypigeon.com.

Growth drivers

High Street's performance is dependent upon overall growth in consumer spending, growth in the non-food, non-clothing sector and High Street's ability to take share in its product markets. The management team believes that, following the current slowdown in consumer spending in our markets, we should see a return to more normal levels of growth over the longer term. We continue to invest in the High Street estate and to identify opportunities to open new stores in unserved catchments.

Competitive position and strengths

High Street's competition comes primarily from other high street specialists, supermarkets and internet retailers. Online retailers offer customers access to our product categories via their computers, while supermarkets give customers access to our product categories as they carry out their regular food shopping. The growth of these formats may take market share away from the High Street business and may have a negative effect on the sales and profit generated by our High Street stores.



High Street has significant competitive strengths. The Board believes it is well-placed to deliver strong cash generation and create shareholder value through factors such as its widely respected and recognised brand; prime sites in key UK high street retail locations; high customer footfall; leading positions in its target categories; purchasing and sourcing scale, driving value for the customer; and an experienced senior management team.

Performance review 2010/11

High Street delivered a resilient performance with an operating profit¹ of £52m (2010: £51m), up two per cent on the prior year. This was achieved through continuing with our strategy to focus on our core categories and rebalance the mix away from entertainment, whilst focusing on optimising margins, tightly controlling costs and delivering the retailing basics. Cash generation in the division continues to be strong.

High Street sales were down five per cent in total and down six per cent on a LFL basis, in line with our strategic plan. Excluding Entertainment, LFL sales were down three per cent.

We continue with our strategy to build on our market leading position in Stationery. LFL sales were down, but we achieved a good share performance in both general and seasonal stationery. We managed our

¹ High Street operating profit is stated after directly attributable share-based payment and pension service charges and before central costs, interest and taxation.

Review of operations: High Street continued

Performance

	2011 £m	2010 £m	Change %	LFL % Change
Revenue	818	860	(5)	(6)
Operating profit¹	52	51	2	

¹ High Street operating profit is stated after directly attributable share-based payment and pension service charges and before central costs, interest and taxation.

stock tightly, given the trading conditions, which helped support further improvement in gross margin. We continue to make progress developing the category and are introducing a number of new gifting ranges in time for Christmas. These will include a new range of Gadgetshop products, a brand we purchased last year, with all products sourced via our Far East office. Funkypigeon.com continues to deliver an encouraging performance and we have created high levels of interest and brand awareness through effective TV advertising. In the summer we also launched a funkypigeon smartphone 'app', which enables customers to take a photo on their mobile telephone, insert it into a card, pay for the card and then send the card immediately.

In Books, LFL sales were down but gross margin was up year on year. The books market continues to be soft, however performance varied by subcategory. Non-fiction saw an improvement year on year whilst Fiction and Kids annualised strong publishing schedules from 2009/10. We saw encouraging share performance versus the general retail market as we continue to implement our strategy to build our authority as a popular book specialist, providing our customers with choice, great value and promotions like the hugely successful Richard and Judy Book Club. We have continued to develop our presence in the growing eBooks market and announced on 13 October 2011 a new partnership with Kobo Inc., building on the success of our eBooks development to date. From the middle of October, we will launch a range of WiFi eReading devices, all of which will have access to over 2.4 million eBook titles.

News and Impulse LFL sales were down year on year but we grew our market share and gross margin was up. The newspaper and magazine market remains challenging however we saw an improvement in the second half of the year following the coverage of the Royal Wedding, and a resilient performance in newspapers driven by successful promotions. We continue to develop the strongly-growing bookazine category and our range now includes over one hundred titles with recent launches including the 'Ultimate Guide to the iPad 2' and '2011 IRB Rugby World Cup Official Guide' bookazines.

In Entertainment, we continued with our strategy to reduce steadily our presence in this category and we saw LFL sales down 55 per cent. Our Entertainment offer now focuses on a small range of DVDs in around 230 of our stores.

During the year we delivered margin improvement of around 160bps. This continues to be driven largely by category mix management as we reduce our presence in Entertainment and rebalance the mix of the business to focus on higher margin categories such as Stationery and Books. Additional margin improvement has come from better buying terms and improved sourcing through our Far East office which opened last year, from improved markdown management, particularly in Stationery, and from better promotional management, particularly in Books.

Cost savings remain a core part of our strategy and we have continued to make good progress again this year.

Cost savings remain a core part of our strategy and we have continued to make good progress again this year. Our target at the beginning of the year was £11m. By the year end, High Street had delivered £14m of cost savings, £3m ahead of plan demonstrating our ability to flex our costs according to trading conditions, for example, during the heavy snow before Christmas. Savings were made across a number of areas of the business including variable costs associated with entertainment, store efficiencies through improved use of technology and supply chain efficiencies. A further £11m of cost savings has been identified over the next three years, making total targeted savings of £25m between 2012 and 2014.

The High Street business now operates from 612 stores², which occupy 3.1m square feet (2010: 3.0m square feet). We opened 39 new stores during the year in line with our strategy to open in unserved catchments including the stores acquired from British Bookshops and Stationers Limited (in administration).

² Including branches in Guernsey and Isle of Man.

Financial review

The Group generated a profit before tax of £93m, an increase of four per cent on the prior year.

Group profit

The Group generated a profit before tax of £93m (2010: £89m), an increase of four per cent on the prior year. Profit from trading operations¹ increased to £109m, up five per cent on the prior year.

Finance charges and taxation

Net finance charges in the year were £nil (2010: £nil) reflecting the current low rates of interest on cash balances.

The tax charge for the year was £20m (2010: £20m). The effective tax rate on continuing activities was 21 per cent (2010: 23 per cent). We expect the effective tax rate to remain below the UK standard rate over the medium term. The exact tax rate achieved will depend on the underlying profitability of the Group and continued progress in agreeing outstanding tax assessments with the tax authorities.

Earnings per share

Earnings per share² increased by 12 per cent to 51.4p (2010: 45.7p), reflecting the increase in profit, the lower tax rate and the lower basic weighted average number of shares in issue following the share buyback.

Dividends

The Board is proposing a final dividend of 15.3p per ordinary share, an increase of 15 per cent on the prior year, which reflects the cash generative nature of the business and the Board's confidence in its future prospects. This gives a total ordinary dividend for the year of 22.5p per ordinary share, up 16 per cent on the prior year. Subject to shareholder

approval the dividend will be paid on 2 February 2012 to shareholders registered at the close of business on 6 January 2012. The Board has a progressive dividend policy and expects that, over time, dividends would be broadly covered twice by earnings calculated on a normalised tax basis.

Balance sheet and cash flow

The Group had net assets of £156m (2010: £186m) at the end of the period, a decrease of £30m since 31 August 2010 reflecting the profit and cash generation of the Group over the period as well as the return of cash to shareholders through a rolling share buyback. The cash generative nature of the High Street and Travel businesses is one of the strengths of the Group.

Cash flow

The Group generated £96m (2010: £89m) of free cash flow during the period.

	2011 £m	2010 £m
Operating profit	93	89
Depreciation, amortisation and amounts written off fixed assets	38	39
Working capital	3	3
Capital expenditure	(36)	(29)
Tax	(10)	(20)
Net interest received	–	1
Net provisions	–	(1)
Share-based payments	8	7
Free cash flow	96	89

¹ Group profit from operations is stated after directly attributable share-based payment and pension service charges and before central costs, interest and taxation.

² Diluted.

Financial review continued

Cash inflows from working capital in the period were £3m due to the continued focus on working capital management and the efficient management of payables and receivables.

Capital expenditure was £36m in the year, £7m higher than last year, as a result of new stores in Travel and High Street together with ongoing investment in the existing estate. In 2011, we opened 35 new Travel units, and 39 High Street stores, including those stores acquired from British Bookshops and Stationers Limited (in administration). We continue to invest in maintaining our retail properties and during the period we have undertaken refurbishments in both High Street and Travel stores. In the current year, we expect capital expenditure to be around £34m. Net corporation tax paid was £10m and includes a tax refund relating to a payment on account of an unresolved item from prior years.

	2011 £m	2010 £m
New stores and store development	15	8
Refurbished stores	11	10
Systems	8	8
Other	2	3
Total capital expenditure	36	29

In addition to the £96m of free cash flow generated in the year, the Group has seen a net cash outflow of £56m in relation to non-trading operations. This includes £29m of ordinary dividend payments (2010: £26m), £14m pension funding (2010: £13m) and net ESOP Trust purchases of £12m (2010: £4m). During the year, the Company completed a £55m return of cash to shareholders by way of an on-market share buyback programme.

As at 31 August 2011, the Group had net funds of £41m with net cash of £41m. The Group has a committed multi-currency revolving credit facility of £70m through to January 2016.

Return on Capital Employed

Total capital employed and ROCE were as follows:

	Operating Capital Employed £m ¹	ROCE ² %	ROCE% with operating leases capitalised ³
Travel	55	104	22
High Street	124	42	16
Trading operations	179	61	18
Unallocated central liabilities	(64)		
Operating assets employed³	115	81	18

For the prior year, comparable ROCE was 68 per cent (18 per cent – after capitalised operating leases).

Pensions

Following the completion of the triennial valuation as at March 2009 of the main defined benefit pension scheme, the WHSmith Pension Trust, the Company and the Trustees agreed a revised deficit funding schedule of approximately £11m per annum (subject to indexation) for the following ten years. The scheme had an actuarial deficit of £113m as at 31 March 2009 with the increase from the previous valuation mainly due to changes in mortality assumptions. The scheme has been closed to new members since 1996, and from 2007, has been closed to defined benefit service accrual. During the year the Company made a contribution of £14m which includes a catch-up payment relating to the period from March 2009 to the date the revised contributions started to be paid.

¹ Net assets adjusted for net funds and retirement benefit obligations.

² Return on capital employed is calculated as the operating profit as a percentage of operating capital employed.

³ Return on capital employed after capitalised net operating leases including internal rent is calculated as the adjusted profit as a percentage of operating assets after capitalising operating leases. Adjusted profit is stated after adding back the annual net rent and charging depreciation on the value of capitalised leases. The value of capitalised operating leases is based on the net present value of future rent commitments.

Group profit

	2011 £m	2010 £m	Profit Growth %
Travel operating profit ¹	57	53	8
High Street operating profit ¹	52	51	2
Group profit from trading operations¹	109	104	5
Unallocated central costs	(16)	(15)	
Profit before finance charges and taxation	93	89	4
Net finance income/(charges)	–	–	
Profit before taxation	93	89	4

¹ Group profit from trading operations and High Street and Travel operating profit are stated after directly attributable defined benefit service charge and share-based payment costs and before central costs, interest and taxation.

The IAS 19 valuation of the WHSmith Pension Trust at 31 August 2011 was a surplus of £69m which is not recognised. There is an actuarial deficit due to the different assumptions and calculation methodologies used compared to those under IAS 19. The relatively small UNS (Note 4) defined benefit pension scheme had an IAS 19 pension deficit of £nil (2010: £1m).

Operating leases

The Group's stores are held mainly under operating leases that are not capitalised and therefore are not included as debt for accounting purposes. The High Street leases are on standard 'institutional' lease terms, typically with a 10-15 year term, subject to five year upwards-only rent reviews. The Travel stores operate mainly through turnover related leases, usually with minimum rent guarantees, and generally varying in length from five to ten years.

The business has an annual minimum undiscounted net rental commitment of £166m (2010: £161m) (net of £6m of external rent receivable (2010: £7m)). The total future rental commitment at the balance sheet date amounted to £1,129m (2010: £1,047m) with the leases having an average life of seven years. Although large, these commitments are characteristic of the retail sector and the risks associated with them are influenced mainly by the quality and location of the sites.

Contingent liabilities

The Group has contingent liabilities relating to reversionary property leases. Any such contingent liability which crystallises will be apportioned between the Group and Smiths News PLC in the ratio 65:35 pursuant to the terms of the demerger agreement (provided that the Smiths News PLC liability is limited to £5m in any 12 month period). We have estimated the Group's 65 per cent share of the future cumulative contingent rental commitment at approximately £30m (2010: £40m).

Outlook

We have delivered a good performance across the Group during the year, despite a challenging trading environment. Travel delivered record profit in the year and we saw further profit growth from High Street, with both businesses continuing to be strongly cash generative. We continue to invest in the business and in new opportunities whilst consistently growing dividends and returning cash to shareholders.

As ever, we rely on the hard work and support of our staff to deliver these results and I would like to thank them for their commitment throughout the year.

Looking to the year ahead, we are not expecting any improvement in underlying economic conditions, but our plans reflect this and we have demonstrated in the past that this need not prevent us from delivering good performance. WHSmith is a resilient business with a strong and consistent record of both profit growth and cash generation. The Group has clearly identified growth opportunities going forward and we will continue to drive both businesses to maximise their different contributions to delivering value for shareholders.

Kate Swann

Group Chief Executive

13 October 2011

Key performance indicators

Details of key performance indicators used by management of the business are provided below:

Profit

	2011 £m	2010 £m	Growth %
Travel operating profit ¹	57	53	8%
High Street operating profit ¹	52	51	2%
Group profit before tax	93	89	4%

	2011	2010	Growth %
Earnings per share²	51.4p	45.7p	12%

Revenue

	2011 £m	2010 £m	Annual Change %	LFL Change %
Travel	455	452	1%	(3%)
High Street	818	860	(5%)	(6%)
Group	1,273	1,312	(3%)	(5%)

	2011	2010
Gross margin growth	150bps	160bps

	2011	2010
Free cash flow³	96	89

	2011	2010
Fixed charges cover⁴	1.5x	1.5x

Retail selling space

	Stores/Units			Selling Space (Sq ft '000s)		
	2011	2010	Growth %	2011	2010	Growth %
Travel units ⁵	561	516	9%	454	422	8%
High Street stores	612	573	7%	3,087	3,020	2%

¹ High Street and Travel operating profit are stated after directly attributable share-based payment and pension service charges and before central costs, interest and taxation.

² Diluted EPS.

³ Net cash flow from operating activities adjusted for capital expenditure, pension deficit funding and net interest received.

⁴ Note 7 to the financial statements.

⁵ Includes 115 Motorway franchise units (2010: 115 units); 16 Airport franchise units (2010: 13 units) and 12 Caffè Nuovo units (2010: 12 units).

Principal risks and uncertainties

The Corporate Governance report on pages 22 to 28 describes the process through which the directors assess, manage and mitigate risks. The Board regularly reviews the risks faced by the Group. WHSmith's management team has identified the following factors as major potential risks to the successful performance of the business. The Board considers the risks set out below to represent the Group's principal risks and uncertainties. WHSmith's management team recognise that the profile of risks changes constantly and additional risks not presently known, or that are currently deemed immaterial, may also impact the Group's business objectives and performance.

Reliance on the WHSmith brand

The WHSmith brand is an important asset. Failure to protect it from an event that materially damages its reputation, and/or the failure to sustain its appeal to customers, could have an adverse effect on revenues. The Group regularly monitors key service and compliance measures to ensure operating standards are maintained in the UK and internationally.

Economic, political and market risks

In each country in which WHSmith operates, WHSmith may be impacted by regulatory and tax changes, increasing scrutiny by competition authorities (such as the ongoing OFT investigation into the sale of eBooks by WHSmith and others), political developments, the economic climate and the general condition of retail and travel markets. Factors such as household disposable income, weather, seasonality of sales, changing demographics and raw material costs will impact the Group's profit performance. Through development of our product ranges and pricing strategy, the Group works to ensure we deliver value for all our customers. WHSmith operates in highly competitive markets and our failure to compete effectively with travel, convenience and category-specific retailers may affect revenues obtained through our stores. The retail industry is subject to changing customer tastes. WHSmith's performance is dependent upon effectively predicting and quickly responding to changing consumer demands. We must also translate market trends into saleable merchandise.

Key suppliers and supply chain management

WHSmith has agreements with key suppliers in the UK, Europe and the Far East. The interruption or loss of supply of core category products from these suppliers to our stores may affect our ability to trade. Quality of supply issues may also impact the Group's reputation and impact our ability to trade. The Group conducts risk assessments of all its key suppliers to identify alternatives and develop contingency plans in the event that any of these key suppliers fail. All suppliers have to comply with the conditions laid out in our Supplier Code of Conduct which covers areas such as production methods, employee working conditions and quality control. WHSmith has contractual and other arrangements with numerous third parties in support of its business activities. None of the arrangements is individually considered to be essential to the business of WHSmith.

Store portfolio

The quality and location of the Group's store portfolio are key contributors to the Group's strategy. Retailing from a portfolio of good quality real estate in prime retail areas and at commercially reasonable rates remains critical to the performance of the Group. All of High Street's stores are held under operating leases, and consequently the Group is exposed to the extent that any store becomes unviable as a result of rental inflation. Most Travel stores are held under concession agreements on average for five to ten years. There is no guarantee that concessions will be renewed or that Travel will be able to bid successfully for new contracts. The majority of Travel's airport and railway concession agreements contain change of control clauses, giving various rights to the grantor of the concession, such as termination of the contract, in the event of a successful takeover bid for WHSmith.

Principal risks and uncertainties continued

Business interruption

An outbreak of a pandemic disease, an act of terrorism or war could reduce the number of customers visiting WHSmith outlets, causing a decline in revenue and profit. In the past our Travel business has been particularly impacted by geopolitical events such as the terrorist attacks on 11 September 2001 and 7 July 2005, which led to reductions in customer traffic. Closure of travel routes both planned and unplanned, such as the disruption caused by weather-related events, may also have a material effect on business. The Group operates from three distribution centres and the closure of any one of them may cause disruption to the business. The Group has business continuity plans in place which are regularly reviewed, updated and tested. In common with most retail businesses, WHSmith relies on a number of important IT systems. Any system performance problems could seriously affect our ability to trade. The Group expects that these systems will require ongoing investment to ensure that they are able to respond to the needs of the business and do not become obsolete. Back-up facilities and business continuity plans are in place and are tested regularly to ensure that business interruptions are minimised and data is protected from corruption or unauthorised use.

Reliance on key personnel

The performance of the Group depends on its ability to continue to attract, motivate and retain key head office and store staff. The retail sector is very competitive and the Group's personnel are frequently targeted by other companies for recruitment. The Remuneration Committee monitors the levels and structure of remuneration for senior management and seeks to ensure that they are designed to attract, retain and motivate the key personnel to run the Group successfully.

Treasury, financial and credit risk management

The Group's exposure to and management of capital, liquidity, credit, interest rate and foreign currency risk are included in Note 23 on page 59 of the accounts. The Group's Treasury function seeks to reduce exposures to interest rate, foreign exchange and other financial risks, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The Group does not engage in speculative trading in financial instruments and transacts only in relation to underlying business requirements. The value of any deposit that can be placed with any approved counterparty is based on short-term and long-term credit ratings. The Group's treasury policies and procedures are periodically reviewed and approved by the Audit Committee and are subject to regular Group Internal Audit review. The Group has a committed facility with a number of financial institutions which are available to be drawn for general corporate purposes including working capital. This facility matures in January 2016. The Group also has a credit risk in relation to its trade, other receivables and sale or return contracts with suppliers.

Pensions and investment risk management

The Group's defined benefit pension scheme, the WHSmith Pension Trust, has assets valued at £785m as at 31 August 2011. An Investment Committee of the Trustees to the scheme meets regularly to review the performance of the asset managers and the scheme as a whole, together with the underlying investments. The Company is represented on this Committee. The Liability Driven Investment (LDI) structure has a number of inflation and interest rate hedges and equity option agreements, with collateral posted daily to or from the scheme to the relevant counterparty. The risk of failure of counterparties and of the investment manager is monitored regularly by the Committee, as such failure could expose the scheme to loss. The scheme is also subject to changes in longevity. The Trustees have the right to determine the level of contributions and the Company has agreed with the Trustees a deficit funding schedule. Further details can be found in Note 4 of the accounts on page 49.

Employees

The Group is proud of its long history of being regarded as a responsible and respected employer.

The Group employs approximately 16,000 people, primarily in the UK, and it is proud of its long history of being regarded as a responsible and respected employer.

Equal opportunities

The Board believes 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, efforts are made to continue their employment and retraining is provided, if necessary.

Training and development

We recognise the importance of training and development to support employee satisfaction and promote a knowledgeable workforce. Our programmes enable our staff to grow with the Company and develop their careers. Succession planning is emphasised across the Group and we continue to achieve high internal succession rates. During the year, we also successfully established a graduate scheme in our Travel head office and an apprenticeship scheme within our Swindon and Birmingham distribution centres.

Employee engagement

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.

Employee share ownership

The Company operates a HM Revenue & Customs Approved Save-As-You-Earn share option scheme ('Sharesave Scheme') which provides employees with the opportunity to acquire shares in the Company. Approximately 885 employees participate in the scheme.

Social and environmental matters

Our corporate responsibility strategy is based on ensuring that we effectively manage the environmental and social issues which are most material to the Group and our stakeholders.

We continue to operate a robust corporate responsibility (CR) programme that is closely aligned to the Group strategy. The management of social and environmental matters is embedded into day-to-day operations across the business. This year we were delighted to retain a Platinum ranking in the annual Business in the Community CR Index.

We operate our CR programme through four key areas: Marketplace, Environment, Workplace and Community. Our CR strategy is based on ensuring that we effectively manage the environmental and social issues which are most material to the Group and to each business unit. The Board carry out annual reviews to ensure the successful implementation of the CR strategy and to approve our targets for the coming year. The following section provides an introduction to our CR work during the year. More detailed information, notably key performance data and future targets, is available in our full CR report, available at www.whsmithplc.co.uk/cr.

Marketplace

Customers

Good customer service is a primary focus of our business. Like any retailer, we understand that customer satisfaction is a key driver of business performance. To ensure we continue to meet our customers' expectations we regularly assess the service we offer by conducting reviews. The results of our twice-yearly Customer Satisfaction Monitor suggest that customer satisfaction has remained consistently high over the last four years, with the friendliness and helpfulness of staff ranking especially high. These surveys ensure we focus on the key elements of service that are important to our customers, including queue management, and polite, efficient and accurate transactions.

We take seriously the responsibility for the products we sell, and we are committed to listening to our customers' feedback. Our Marketing Code of Practice sets out the standards we follow in our promotional activity, marketing and advertising. In practice this ensures we sell products that are safe, fit for purpose, meet legal standards and are not described in a misleading manner, particularly when marketing to children.

Suppliers

Ethical trading

We are committed to good labour standards and respecting the environment in our supply chain. Our Supplier Code of Conduct and Human Rights policy states our expectations of our suppliers. We operate an active programme whereby we engage with suppliers to encourage regular performance improvements.

The in-house supplier audit team based in our Far East Sourcing office carries out a regular programme of supplier audits to monitor labour standards. They visit each new factory to assess its performance and, where necessary, agree an action plan for improvement with the factory. We provide support as suppliers make these improvements, and ensure that all direct source suppliers and Asia-based suppliers of UK agents are audited at least every two years.

We continue to engage with suppliers to support them as they address key labour standards issues. During the year, we have focused on two key issues: health and safety standards and worker representation. These projects have been well-received by some of our key Chinese suppliers and we plan to engage more suppliers in the year ahead.

WHSmith is a member of the Ethical Trading Initiative.

Forest sourcing

It is our continuing objective that all virgin (i.e. non-recycled) material used in our own-brand products is from known, legal, well-managed and credibly certified forests. This year, we increased the volume of material from recycled and certified forests to 72 per cent, up from 69 per cent in 2010. We have also made further progress with product labelling so that it is clearly visible to our customers when a product has been certified under the Forest Stewardship Council scheme.

Payment policy for suppliers

The Company's policy for the payment of suppliers, which complies with the CBI Code of Practice for Buyers, is to agree the terms of payment in advance in line with normal trade practice and, provided a supplier performs in accordance with the agreement, to abide by such terms. Copies of the CBI code may be obtained from the CBI, Centre Point, 103 New Oxford Street, London WC1A 1DU. The Company's trade creditors figure as at the balance sheet date was

equivalent to 56 days (2010: 53 days) based on the ratio of average trade creditors to the amounts paid during the year to trade suppliers.

Environment

We recognise that good environmental management also makes good business sense. We are committed to reducing the environmental impact of our business, and measure our performance each year.

The energy used within our stores accounts for the majority of our carbon footprint and improving energy efficiency remains a focus. This year, we reduced our energy consumption by three per cent per square foot across the Group. In High Street, we have undertaken trials of different lighting equipment to reduce levels of consumption in the year ahead. Our Travel business continues to work with our largest landlords to look for opportunities to improve energy efficiency in that part of the estate.

As part of our carbon management programme, we measure the CO₂ emissions associated with the transport of packages moved from distribution centres to our stores. In line with these efforts, we increased our collaboration with suppliers and other companies to reduce the miles driven to transport our products.

We recognise that reducing the waste produced by our operations is another important element of our environmental responsibility. Our waste reduction programme focuses on increasing the level of recycling at our stores and distribution centres, as well as reducing the packaging waste from our products. Over the year we made good improvements in both of these key areas. We also continue to encourage customers to refuse or reuse carrier bags.

Health and safety

We are committed to maintaining high standards of health and safety. The management team, supported by professional safety advisers, monitors key safety performance indicators and an annual report detailing trends, performance and recommendations is presented to the Board. The business also has a Health and Safety Committee that is comprised of representatives and professional health and safety advisers. We have set a target to reduce reportable accidents recorded across the Group by five per cent per employee by 2013, based on 2010 levels, and we are making good progress to meet this goal.

Community

As a leading bookseller and stationer we focus our community investment on supporting education and life-long learning. Over the year we maintained our commitment to invest one per cent of pre-tax profits into local communities, resulting in £933,121 in donations (2010: £1.1m). Included in this figure are cash donations and gifts in kind. These donations totalled £162,260 (2010: £184,600), and were made to local schools and registered charities including the Woodland Trust and the National Literacy Trust. Over the year, donations made to charities through the sale of products totalled £151,318 (2010: £164,700), including Children in Need, Barnardos, Age UK, Make a Wish Foundation and Help the Hospices. Lastly, we donated significant commercial support to our biggest charity partners, including World Book Day and Booktrust; these donations totalled £390,021 (2010: £454,500).

The full extent of our community investment activity, measured according to the London Benchmarking Group model, is outlined in the Group's CR report.

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 Company to support literacy projects.

Promoting literacy is at the heart of our community engagement programmes. We are working with the National Literacy Trust to provide courses for parents who want to develop skills to support their children's literacy development. This year over 200 families took part in courses in schools across the UK. We also operate two further literacy programmes both focused on enhancing library resources, with our Travel business donating library resources to a number of hospitals where WHSmith has stores, and many of our High Street stores donating books to schools across the UK.

We also continue to raise funds for charities and good causes through the promotion and sale of tailored products in our stores, such as charity Christmas cards and stationery items.

Political donations

It is the Company's policy not to make political donations and no political donations or EU political expenditure were made in the year (2010: £nil).

Corporate governance, AGM and other matters

Corporate governance

The Board of the Company is committed to achieving the highest standards of corporate governance. The principal governance rules applying to companies with a premium listing of equity shares on the London Stock Exchange are contained in the UK Corporate Governance Code adopted by the Financial Reporting Council in June 2010 and available publicly from www.frc.org.uk (the 'Code'). The Board confirms that the Company has applied the principles of the Code as described in this report and complied with its provisions throughout the financial year ended 31 August 2011. This report also includes the information that is required by DTR 7.2 to be contained in the Company's corporate governance statement.

The Board

On 13 October 2011, the Board comprised the Chairman, two executive directors and four independent non-executive directors. Short biographies of each of the directors, which illustrate their range of experience, are set out on page 30. There is a clear division of responsibility at the head of the Company; Walker Boyd (Chairman) being responsible for running the Board and Kate Swann (Group Chief Executive) being responsible for implementing strategy. Jeff Harris has been nominated by the Board as the Senior Independent Director. The Board structure ensures that no individual or group dominates the decision-making process.

Walker Boyd was appointed as a non-executive director on 1 February 2010 and became Chairman on 1 September 2010. Walker Boyd, on appointment as Chairman, met the independence criteria set out in the Code.

Henry Staunton was appointed as a non-executive director on 1 September 2010.

John Barton retired from the Board on 10 June 2011.

Jeff Harris was appointed as a non-executive director on 10 June 2011.

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

The Board met eight times during the year. The Board manages the Company through a formal schedule of matters reserved for its decision. These include overall management of the Company; approval of strategic plans including acquisitions and disposals; approval of the Company's commercial strategy and operating and capital expenditure budgets; approval of the annual report and financial statements, material agreements and non-recurring projects; treasury policy; control, audit and risk management; remuneration; and corporate responsibility. It also delegates specific responsibilities to the Board Committees detailed below, the role and responsibilities of each Committee being set out in formal terms of reference which are available on the Company's website.

All directors have access to the advice and services of the Company Secretary and may take independent professional advice at the Company's expense in the furtherance of their duties. The Board receives appropriate and timely information, Board and Committee papers normally being sent out several days before meetings take place. All newly appointed directors receive induction training on joining the Board which is tailored to meet the needs of the individual, including store visits and meetings with employees across the businesses and external advisers. The need for director training is regularly assessed by the Board.

The performance of the Board and its Committees is a fundamental component of the Company's success. The Board regularly reviews its own performance and carried out a formal evaluation in September 2011. The evaluation was co-ordinated and directed by the Chairman with the support of the Company Secretary. A questionnaire covering the main areas of assessment was prepared by the Chairman and the Company Secretary and formed the basis of in-depth interviews with each director. The results of the assessment were considered by the Board, and confirmed the strength of the leadership of the Company, a sound governance framework and practices compliant with the Code. In addition, an action plan was agreed which included a number of steps to improve Board effectiveness.

Annual reviews of the performance of the Nominations, Remuneration and Audit Committees have also been carried out as part of the Board evaluation. These reviews have confirmed that each Committee continues to operate effectively.

The Group Chief Executive reviews the performance of the Group Finance Director and other senior executives. The Chairman reviews the performance of the Group Chief Executive and each non-executive director. During the year, the Chairman had regular meetings with the non-executive directors, without the executive directors present, to discuss Board issues and how to build the best possible team. The Senior Independent Director met with the non-executive directors in the absence of the Chairman, to assess the Chairman's performance.

Under the Company's Articles of Association, all directors are required to retire and submit themselves for re-election every three years. However, in accordance with the Code, the Board has agreed that all directors will stand for election or re-election at the AGM to be held on 25 January 2012. Biographies of all the directors are set out in the Company's Annual Report and are also available for viewing on the Company's website (www.whsmithplc.co.uk).

Board Committees

Audit Committee

The Audit Committee is chaired by Mike Ellis, who has recent and relevant financial experience, and its other members are Drummond Hall, Jeff Harris and Henry Staunton, all of whom are independent non-executive directors. At the invitation of the Committee, the Chairman of the Board, the Group Finance Director, the Internal Audit Director and representatives of the external auditors regularly attend meetings. The Committee has regular private meetings with the external and internal auditors during the year. The Committee's principal responsibilities cover internal control and risk management, internal audit, external audit (including auditor independence) and financial reporting.

The Committee met four times during the year and its activities included: reviewing the preliminary and interim announcements, Annual Report and Financial Statements; considering reports from the external auditors identifying any accounting or judgemental issues requiring its attention; approval of audit plans for the external and internal auditors; considering reports from the Internal Audit Director on the results of internal audit reviews, significant findings, management action plans and timeliness of resolution; reviewing reports on the Company's risk management process; reviewing management of fraud risk and incidents of fraud; reviewing the Company's Business Continuity Plans; and reviewing the effectiveness of the Company's whistleblowing process.

The Committee reviewed the effectiveness of the Company's financial controls and the systems of internal control by approving the Internal Audit Plans annually and reviewing the findings quarterly, and by reviewing the scope of work and reports of the external auditors. The Committee also reviews the risk assessment process and corporate business risk registers throughout the year. The risk registers outline the key risks faced by the Company including their impacts and likelihood along with the relevant mitigating controls and actions.

The Committee's terms of reference are available on the Company's website.

Nominations Committee

The Nominations Committee is chaired by Walker Boyd and its other members are Mike Ellis, Drummond Hall, Jeff Harris, Henry Staunton and Kate Swann. The Committee's principal responsibility is to ensure that appropriate procedures are in place for the nomination, selection and succession of directors and senior executives.

The Committee met three times during the year and its activities included a review of the Company's succession plans and discussion in respect of the ongoing structure and capability of the Board. In accordance with the Company's succession plan, John Barton retired from the Board on 10 June 2011 and was replaced by Jeff Harris on 10 June 2011. The appointment of Jeff Harris was made following a search conducted by external consultants and recommendations made to the Committee taking into account the need for diversity in the boardroom.

The Committee keeps itself updated on key developments relevant to the Company, including most recently, on the subject of diversity in the boardroom. The Board believes in creating throughout the Company a culture free from discrimination in any form and is proud of its long history of being regarded as a responsible and respected employer. Within the Company, women account for 42 per cent of store managers and 30 per cent of senior management roles. The Committee believes in providing mentoring for women in senior roles to help them maximise their careers at the Company. The Committee has chosen not to set specific representation targets for women at Board level at this time. However, it confirms that the benefits of diversity, including gender diversity, will continue to be an active consideration when changes to the Board's composition are next contemplated, within the overriding objective of ensuring that the Board has the appropriate balance of skills, experience and independence.

The Committee's terms of reference are available on the Company's website.

Remuneration Committee

The Remuneration Committee is chaired by Drummond Hall and its other members are Walker Boyd, Mike Ellis, Jeff Harris and Henry Staunton. At the invitation of the Committee, the Group Chief Executive and representatives of its external independent adviser, attend meetings. The Committee met six times during the year. The Committee's principal responsibility is to determine and recommend to the Board the remuneration of executive directors and the Chairman. The Committee monitors the levels and structure of remuneration for senior management and seeks to ensure that they are designed to attract, retain and motivate senior management to run the Company successfully. The remuneration of the non-executive directors is determined by the Chairman and the executive directors.

The Remuneration report is set out on pages 31 to 37. The Committee's terms of reference are available on the Company's website.

Corporate governance, AGM and other matters continued

Attendance at Board/Committee meetings

The following table shows the number of Board and Committee meetings held during the year ended 31 August 2011 and the attendance record of individual directors.

	Board meetings	Committee meetings		
		Audit	Nominations	Remuneration
No. of meetings	8	4	3	6
Walker Boyd	8	4	3	6
Kate Swann	8	–	3	4
Robert Moorhead	8	4	–	–
John Barton	7	2	2	5
Mike Ellis	8	4	3	6
Drummond Hall	8	4	3	6
Jeff Harris	1	–	1	1
Henry Staunton	7	4	2	5

¹ John Barton retired as a director of the Company on 10 June 2011.

² Jeff Harris was appointed as a director of the Company on 10 June 2011.

³ Walker Boyd and Robert Moorhead were invited to and attended four meetings of the Audit Committee.

⁴ Kate Swann was invited to and attended four meetings of the Remuneration Committee.

The Board has met twice since 31 August 2011 and all the directors attended both meetings with the exception of Henry Staunton who attended one meeting. In addition, the Remuneration Committee has met twice and the Audit Committee has met once since 31 August 2011.

Risk management and internal controls

The Board has overall responsibility for the Company's system of internal control and for reviewing its effectiveness, whilst the role of management is to implement the Board's policies on risk and control and provide assurance on compliance with these policies. Steps continue to be taken to embed internal control and risk management further into the operations of the business and to deal with areas of improvement which come to the attention of management and the Board. Such a system is, however, designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

i) Risk

The Board confirms that there is an ongoing process for identifying, evaluating and managing significant risks faced by the Company, including those risks relating to social, environmental and ethical matters. This process was in place throughout the year under review and up to the date of approval of the Annual Report and meets the requirements of the guidance entitled 'Internal Control – Revised Guidance for Directors' produced by the Financial Reporting Council (the 'Turnbull Guidance'). The Audit Committee has kept under review the effectiveness of the system of internal control and has reported regularly to the Board.

The key features of the risk management process are as follows:

- the business conducts an annual risk assessment based on identified business objectives which are reviewed and agreed by the executive committee of each business. Risks are categorised into strategic, operational, financial and compliance and are evaluated in respect of their potential impact and likelihood. These risk assessments are updated and reviewed quarterly by the Group and business risk committees and are reported to the relevant business executive committee and the Audit Committee;
- a Company risk assessment is also undertaken by the internal audit function, which considers all areas of potential risk across all systems, functions and key business processes. This risk assessment, together with the business risk assessment, forms the basis for determining the internal audit plan. Audit reports in relation to areas reviewed are discussed and agreed with the business risk committees and the Audit Committee;
- the internal audit team meets annually with senior executives in order to complete a formal certification of the effectiveness of internal controls. These reports are submitted to the business risk committees. Certificates are also provided by the risk committees to the Audit Committee, to assist the Board in conducting its annual review of internal controls in compliance with the Turnbull Guidance. As part of its annual review the Board discusses and agrees the principal risks that are included within the Annual Report.

ii) Internal controls

a) Financial controls

The Company has an established framework of internal financial control, the effectiveness of which is regularly reviewed by the executive management and the Board. The key elements of this are as follows:

- the Board is responsible for overall Company strategy, for approving revenue and capital budgets and plans, for approving major acquisitions and disposals and for determining the financial structure of the Company, including treasury and dividend policy. Monthly results, variances from plan and forecasts are reported to the Board;
- the Audit Committee assists the Board in the discharge of its duties regarding the Company's financial statements, accounting policies and the maintenance of proper internal business, operational and financial controls. The Committee provides a direct link between the Board and the external auditors through regular meetings;
- the Internal Audit function advises and assists business management to establish and maintain adequate financial controls and reports to the Audit Committee on the effectiveness of those controls;
- the Board has established an organisational structure with clearly defined lines of responsibility and approval controls identifying transactions requiring approval by the Board or by the Approvals Committee. The Group Finance Director is responsible for the functional leadership and development of the Company's finance activities;
- there is a comprehensive system for budgeting and planning and for monitoring and reporting the performance of the Company's business to the directors. Monthly results are reported against budget and prior year, and forecasts for the current financial year are regularly revised in the light of actual performance. These results and forecasts cover profits, cash flows, capital expenditure and balance sheets;
- the Company has established a uniform system of investment appraisal;
- executive management has defined the financial controls and procedures with which each business is required to comply. Key controls over major business risks include reviews against performance indicators and exception reporting, and the business is required to prepare monthly management accounts; and
- routine reports are prepared to cover treasury activities and risks, for review by senior executives, and annual reports are prepared for the Board and Audit Committee covering treasury policies, insurance and pensions.

b) Non-financial controls

The Company has established a wide range of non-financial controls covering areas such as health and safety, the environment, ethical trading, employment and business continuity, the effectiveness of which are regularly reviewed by the executive management and the Board. The key elements are as follows:

- a corporate responsibility strategy was approved by the Board, including objectives and targets to address the impact that our activities have on the environment, workplace, marketplace and community;
- clear accountability for corporate responsibility issues has been defined at Board and operational level;
- annual updates are submitted to the Board on each aspect of corporate responsibility;
- the Board is committed to maintaining high standards of health and safety in all its business activities. These standards are set out in the Company's Health and Safety Policy which is regularly reviewed by the Board. The Risk Management team works with the business to assess health and safety risks and introduce systems to mitigate them. All notified accidents are investigated and targets are set to reduce the level of incidence;
- the Board has approved an Environmental Policy and sets environmental objectives and specific targets which are reviewed annually;
- the Board is committed to ensuring reasonable standards among its suppliers and has approved an Ethical Trading Code of Conduct setting out the standards it expects its partners and suppliers to adopt. This policy covers health and safety, child labour, working hours, discrimination and the environment;
- the Company is committed to ensuring that its personnel meet good standards of integrity and competence. The Company's systems cover the recruitment, training and development of personnel, an appropriate division of responsibilities and the communication of Company policies and procedures throughout the organisation; and
- Business Recovery Plans exist to enable the business to continue in the event of a disaster with minimum disruption to customers.

The Bribery Act came into force on 1 July 2011. The Company has enhanced its policies and procedures in order to meet the requirements of the Act.

Corporate governance, AGM and other matters continued

Auditor independence

The Board is satisfied that Deloitte LLP has adequate policies and safeguards in place to ensure that auditor objectivity and independence are maintained. The external auditors report to the Audit Committee annually on their independence from the Company. In accordance with professional standards, the partner responsible for the audit is changed every five years, and last changed in 2009. The Audit Committee considers whether the audit should go out to tender but has taken the view that partner rotation at both the Group and operating business level has been sufficient to maintain the necessary independence. There are no contractual restrictions on the Audit Committee as to the choice of external auditors.

The Audit Committee has also adopted a formal policy on the Company's relationship with its auditor in respect of non-audit work. The policy is reviewed annually by the Audit Committee. The Audit Committee's approval is required in advance for any non-audit services to be provided where the fees exceed £25,000. The majority of non-audit work undertaken by Deloitte LLP in 2010/11 related to tax, turnover certificates and advice in relation to renewal of banking facilities. The auditors may only provide such services if such advice does not conflict with their statutory responsibilities and ethical guidance. The Audit Committee Chairman's pre-approval is required before the Company uses non-audit services that exceed financial limits set out in the policy. For the financial year ended 31 August 2011 the non-audit fees were £69,000 and the audit fee was £281,000.

In line with its terms of reference, the Audit Committee undertakes a thorough assessment of the quality, effectiveness, value and independence of the audit provided by Deloitte LLP on an annual basis, seeking the views and feedback of the Board, together with those of Group and divisional management. Following the most recent review, the Audit Committee has determined to recommend to the Board the re-appointment of Deloitte LLP at the AGM on 25 January 2012.

Relations with shareholders

The Board's primary role is to promote the success of the Company and the interests of shareholders. The Board is accountable to shareholders for the performance and activities of the Group.

The Company recognises the importance of communicating with its shareholders to ensure that its strategy and performance are understood. This is achieved principally through the annual report and accounts and the AGM. In addition, a range of corporate information, including all Company announcements and presentations, is available to investors on the Company's website, www.whsmithplc.co.uk.

Formal presentations are made to institutional shareholders following the announcement of the Company's full year and interim results. The Board recognises that the AGM is the principal forum for dialogue with private shareholders. All directors normally attend the AGM and are available to answer any questions that shareholders may wish to raise.

The Notice of Meeting is sent to shareholders at least 20 working days before the meeting. Those shareholders who have elected to receive electronic communications receive notice of the availability of the annual report on the Company's website. The deadline for appointing a proxy is 48 hours before the time fixed for the meeting (although, in calculating this period, no account is taken of non-working days).

Shareholders vote on each resolution on a show of hands, unless a poll is validly called, and after each such vote the number of proxy votes received for, against, and withheld is announced. The proxy figures are made available in writing at the end of the meeting, announced to the London Stock Exchange and published on the Company's website.

The Board as a whole is kept fully informed of the views and concerns of major shareholders. The Group Chief Executive and Group Finance Director update the Board following meetings with major shareholders and analysts' briefings are circulated to the Board. When requested to do so, the Chairman and non-executive directors attend meetings with major shareholders.

Compliance with the Code

Throughout the year ended 31 August 2011 the Company has been in compliance with the provisions of the Code.

Dividends

The directors recommend the payment of a final dividend for the year of 15.3p per ordinary share on 2 February 2012 to members on the Register at the close of business on 6 January 2012.

This final dividend and the interim dividend of 7.2p per ordinary share paid on 9 June 2011 makes a total dividend of 22.5p per ordinary share for the year ended 31 August 2011.

Share capital

The issued share capital of the Company, together with details of shares issued during the year, are shown in Note 24 to the Accounts.

The issued share capital of the Company as at 31 August 2011 was 139,203,120 ordinary shares of 22⁹/₆₇p each. These shares are listed on the London Stock Exchange and can be held in certificated or uncertificated form.

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

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

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

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

Purchase of own shares

At the 2011 AGM, authority was given for the Company to purchase, in the market, up to 22,415,020 ordinary shares of 22⁶/₆₇p each. The Company used this authority to purchase and subsequently cancel 11,509,145 of its own shares during the financial year, representing 8.27 per cent of the called-up share capital, at an average price of 474p. The aggregate amount of consideration paid by the Company for the purchases was £55m. This authority is renewable annually and approval will be sought from shareholders at the AGM in 2012 to renew the authority for a further year, given that on 31 August 2011 the Company announced its intention to make a further return of up to £50m of cash to shareholders via a rolling share buyback programme.

During the period 1 September 2011 to 13 October 2011 the Company purchased and subsequently cancelled a further 297,000 of its own shares representing 0.21 per cent of the called-up share capital, at an average price of 485p. The aggregate amount of consideration (including costs) paid by the Company for the purchases was £2m.

Issue of new ordinary shares

During the financial year ended 31 August 2011, 163,515 ordinary shares of the Company were issued under the Sharesave Scheme at prices between 295.20p and 400.40p. The Articles of Association of the Company provide that the Board may, subject to the prior approval of the members of the Company, be granted authority to exercise all the powers of the Company to allot shares or grant rights to subscribe for or convert any security into shares, including new ordinary shares.

Significant agreements – change of control

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

Details of the change of control clause contained in the service contracts of the executive directors can be found in the Remuneration report on page 34.

Directors' conflicts

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

Company's shareholders

The Company has been notified in accordance with the Disclosure and Transparency Rules of the Financial Services Authority that, as at the date of this report, the following shareholders own more than three per cent of the issued share capital of the Company:

Holder	Number	% as at date of notification	Nature of Holding
Lloyds Banking Group plc	14,068,654	10.00	Indirect
BlackRock Inc.	13,623,926	9.64	Indirect
Artemis Investment Management LLP	7,693,764	5.50	Direct
Jupiter Asset Management Limited	7,787,536	4.96	Indirect
JP Morgan Chase & Co.	7,428,306	4.74	Indirect
Legal & General Group Plc	5,614,443	3.74	Direct

Except for the above, the Company is not aware of any ordinary shareholders with interests of three per cent or more in the issued share capital of the Company.

Corporate governance, AGM and other matters continued

Board of Directors

The names of the directors as at the date of this report, together with biographical details, are set out on page 30. All the directors served throughout the period except as set out below:

Henry Staunton was appointed as a director on 1 September 2010. John Barton retired from the Board on 10 June 2011 and was replaced by Jeff Harris with effect from 10 June 2011.

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

The Company's Articles of Association require that directors offer themselves for re-election every three years and that new directors appointed by the Board offer themselves for election at the next AGM following their appointment. However, in accordance with the Code, the Board has agreed that all directors will stand for election or re-election at the AGM.

The interests of the directors and their immediate families in the share capital of the Company, along with details of directors' share options and awards, are contained in the Remuneration report on pages 31 to 37.

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

The Company maintains directors' and officers' liability insurance which gives appropriate cover for any legal action brought against its directors. The Company has also provided an indemnity for its directors, which is a qualifying third party indemnity provision for the purposes of Section 234 of the Companies Act 2006.

Financial risk management

The financial risk management and policies of the Group are disclosed in Note 23 of the Accounts.

Going concern

The Group's business activities together with the factors that are likely to affect its future developments, performance and position are set out in this Directors' report and business review. This Directors' report and business review also describes the Group's financial position, cash flows and borrowing facilities, further information on which is detailed in Notes 20 to 23 of the Accounts. In addition, Note 23 of the Accounts includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. The Directors' report and business review also highlights the principal risks and uncertainties facing the Group.

The Group continues to be highly cash generative and has a committed multi-currency revolving credit facility of £70m.

The Directors report that they have reviewed current performance and forecasts, combined with expenditure commitments, including capital expenditure, proposed dividends and share buyback, and borrowing facilities. After making enquiries the directors have a reasonable expectation that the Group has adequate financial resources to continue its current operations, including contractual and commercial commitments for the foreseeable future despite the current uncertain economic outlook. For this reason, they have continued to adopt the going concern basis in preparing the financial statements.

Auditors

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

Disclosure of information to auditors

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

Annual General Meeting

The AGM of the Company will be held at JPMorgan Cazenove, 20 Moorgate, London EC2R 6DA on 25 January 2012 at 11.30am. The Notice of Annual General Meeting is given, together with explanatory notes, in the booklet which accompanies this report.

This report was approved by the Board on 13 October 2011.

By Order of the Board

Ian Houghton

Company Secretary

13 October 2011

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 are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company 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 accounts 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 the parent company 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 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.

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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 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.

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

Directors' responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the Directors' report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Kate Swann
Group Chief Executive

Robert Moorhead
Group Finance Director

Board of Directors



1. Walker Boyd



2. Kate Swann



3. Robert Moorhead



4. Mike Ellis



5. Drummond Hall



6. Jeff Harris



7. Henry Staunton

1. Walker Boyd joined the Board of WHSmith as a non-executive director in February 2010 and became Chairman on 1 September 2010. He retired as Group Finance Director at Signet Jewelers Limited in June 2010 (previously Signet Group Plc) having held this position since 1995. He also became Chairman of Spirit Pub Company plc in August 2011.

2. Kate Swann is Group Chief Executive and joined the Board of WHSmith in November 2003. She started her career at Tesco plc before moving to positions at Homepride Foods, Coca-Cola Schweppes and Dixons Stores Group. She then worked for Homebase, ultimately as Managing Director, before becoming Managing Director of Argos in December 2000. She is also a non-executive director of Babcock International Group PLC.

3. Robert Moorhead is Group Finance Director and joined the Board of WHSmith in December 2008. He joined WHSmith in 2004 as Retail Finance Director. Previously, he was Group Finance Director at Specsavers Optical Group and Finance and IT Director of World Duty Free Europe. He also held a number of roles at B&Q and Kingfisher Group. He started his career at Price Waterhouse.

4. Mike Ellis is a non-executive director and joined the Board of WHSmith in March 2005. He was previously Group Finance Director of HBOS plc. Prior to this, he worked in a number of senior executive positions at Halifax plc (and its predecessor, Halifax Building Society). He is Chairman of Skipton Building Society.

5. Drummond Hall is a non-executive director and joined the Board of WHSmith in September 2008. He spent the early part of his career with Procter & Gamble, Mars and PepsiCo Inc, and from 2002 to 2006 was Chief Executive of Dairy Crest PLC.

6. Jeff Harris is a non-executive director and Senior Independent Director and joined the Board of WHSmith in June 2011. He was Chief Executive of Alliance Unichem plc from 1986 to 2003 and Chairman from 2003 to 2005. He is also Chairman of Filtrona plc and Cookson Group plc.

7. Henry Staunton is a non-executive director and joined the Board of WHSmith in September 2010. He is also a non-executive director and Vice Chairman of Legal & General Group Plc, Capital and Counties Properties plc and Merchants Trust plc.

Ian Houghton is Company Secretary and Legal Director.

Board Committees

Audit Committee

Mike Ellis – Chairman
Drummond Hall
Jeff Harris
Henry Staunton

Nominations Committee

Walker Boyd – Chairman
Mike Ellis
Drummond Hall
Jeff Harris
Henry Staunton
Kate Swann

Remuneration Committee

Drummond Hall – Chairman
Walker Boyd
Mike Ellis
Jeff Harris
Henry Staunton

Remuneration report

This Report has been prepared on behalf of the Board by the Remuneration Committee. In all its activities, the Remuneration Committee has adopted the principles of good governance relating to directors' remuneration as set out in the UK Corporate Governance Code and complies with the Companies Act 2006, the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 and the Listing Rules of the Financial Services Authority. Part A of the report, which is not subject to audit, sets out the Company's remuneration policy. Part B, which has been audited, provides details of the remuneration, pensions and share incentives of the directors for the year ended 31 August 2011.

PART A – Unaudited information

Remuneration Committee

The Remuneration Committee met six times during the year. It is chaired by Drummond Hall. The other members of the Committee are Walker Boyd, Mike Ellis, Jeff Harris and Henry Staunton. John Barton served on the Committee during the year and retired from the Board on 10 June 2011. The Committee's terms of reference, which are available on the Company's website, set out the responsibilities of the Committee which include:

- determining and agreeing with the Board the broad policy for the remuneration of the Chairman, executive directors and certain other senior executives;
- approving the design of, and targets for, any performance-related pay schemes operated by the Company and approving the total annual payments made under such schemes;
- reviewing the design of all share incentive plans for approval by the Board and shareholders;
- ensuring that contractual terms on termination, and any payments made, are fair to the individual and the Company, and ensuring that failure is not rewarded and that the duty to mitigate loss is fully recognised; and
- determining the total individual remuneration package of each executive director and other senior executives, including bonuses and share incentives.

Following a formal review the Committee appointed FIT Remuneration Consultants LLP ('FIT') as its external independent adviser with effect from 17 August 2011. Prior to that date the Committee received advice and services from its external independent adviser, Aon Hewitt New Bridge Street ('HNBS'), a trading name of Hewitt Associates Limited, who were appointed by the Committee. During the year the Committee also received advice from an independent law firm, Allen & Overy LLP, who were appointed by the Company, in respect of share schemes. A separate department at Hewitt Associates Limited also provided the Company with actuarial advice in respect of the Company's pension schemes and Allen & Overy LLP provided the Company with other legal services. Ian Houghton, Company Secretary, also materially assisted the Committee in carrying out its duties, except in relation to his own remuneration. Kate Swann attends meetings at the invitation of the Committee. Both Kate Swann and Walker Boyd absent themselves from discussions about their own pay.

Remuneration policy

The Company's remuneration policy aims to encourage a performance-based culture, attract and retain high calibre executives and align executives' and shareholders' interests. In determining such policy the Remuneration Committee takes into account all factors which it deems necessary, including market practice, performance of the individual and of the Company, the experience and responsibility of the individuals concerned and pay and conditions elsewhere in the Group. The Committee endeavours to ensure that any pay rises for executive directors are generally comparable with those being applied elsewhere within the Group. The objective of the policy is to ensure that executive management are provided with appropriate incentives to encourage enhanced long-term performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company. Basic salary is targeted around the median of the market with an opportunity to earn above median levels of total reward where there is exceptional performance. The Committee is guided by the strategic and financial priorities of the Group as outlined in other sections of the annual report. The Committee also takes account of the changing nature of the business, the markets in which it operates and reward practices and employment conditions of employees throughout the Group.

In line with the Association of British Insurers' Guidelines on Responsible Investment Disclosure, the Remuneration Committee will ensure that the incentive structure for executive directors and senior management will not raise environmental, social or governance ('ESG') risks by inadvertently motivating irresponsible behaviour. More generally, with regard to the overall remuneration structure, there is no restriction on the Remuneration Committee which prevents it from taking into account corporate governance on ESG matters.

2011 Remuneration review

During the year under review the Committee undertook a review of senior executive incentive arrangements to fulfil the commitment it gave shareholders following the last award that was made to senior executives under the WH Smith 2008 Management Investment Plan (the 'MIP') in October 2010. At that time the Committee committed to reviewing the Company's remuneration structures to enable a transition away from the MIP, as the end-to-end nature of that arrangement was not consistent with evolving best practice and to ensure the Company's arrangements were driving the right behaviours.

The Committee believes that the MIP was a key mechanism in retaining and incentivising the management team to deliver the success it has achieved over the previous years. The Committee, therefore, concluded that the operation of some form of matching arrangement, alongside the operation of the annual Long-Term Incentive Plan (the 'LTIP'), were the appropriate mechanisms going forwards as they should continue to encourage growth and the delivery of returns to shareholders. The Committee also reconfirmed its belief that the key performance indicator that should be used to incentivise and reward executives is Earnings Per Share ('EPS'). It also continues to support the inclusion of Total Shareholder Return ('TSR') to encourage value creation for shareholders by aligning executives' interests with shareholders. After reflecting on feedback, at the time of the last review, from a number

Remuneration report continued

of shareholders, the Committee has also determined that, to further support returns to shareholders, a dividend growth metric should also be included as a performance measure for LTIP awards to be made from 2012.

The Committee is proposing to seek shareholder approval at the AGM to establish a Co-Investment Plan ('CIP'), which will be operated on an annual basis, to replace the MIP. If approval is gained, the first awards under the new CIP will be made following the announcement of the Company's results in October 2012. Further details are set out in the Notice of Annual General Meeting.

The current performance-related benefits, which consist of an annual performance bonus and long-term incentives, account for a significant proportion of total remuneration.

The table below shows the expected relative value of the executive directors' future annual remuneration package:

Name	Fixed element	Performance-related elements	
	Base salary + pension	Annual bonus	Long-term incentives
Kate Swann	18%	27%	55%
Robert Moorhead	21%	22%	57%

a) Kate Swann can earn up to 200 per cent of salary for exceptional performance and Robert Moorhead can earn up to 130 per cent of salary for exceptional performance under the annual bonus plan.

b) The value placed on long-term incentives assumes maximum performance and comprises the value of shares awarded under both the LTIP and the proposed CIP.

c) The above table does not include the value of other taxable benefits such as car allowance and private medical insurance.

Salary and benefits

The salaries of executive directors have, to date, been reviewed annually in September. The Committee has decided to defer the review date to 1 March 2012 (and annually thereafter) to align the review dates for all staff. When conducting this review, the Committee takes into account a range of factors including the Group's performance, market conditions, the prevailing market rates for similar positions in comparable companies, the responsibilities, individual performance and experience of each executive director and the level of salary increases awarded to employees throughout the Group. Executive directors also receive taxable benefits including a car allowance and private medical insurance. Any payments made to executive directors other than salary are not pensionable.

The fees paid to non-executive directors are determined by the Chairman and the executive members of the Board and are paid in cash. The levels are set to take into account the required time commitment and the fee payments for non-executive directors of similar organisations. The fees paid to the non-executive directors have not been reviewed and remain unchanged for the current financial year. Non-executive directors do not participate in any bonus or share schemes. The fees comprise:

Basic Annual Fee – £40,000

Committee Chairman – £6,000*

Senior Independent Director – £5,000

* This fee is not paid to the Chairman of the Nominations Committee.

Annual bonus plan

Under the annual bonus plan participants have the opportunity to earn a bonus based on the achievement of a profit target and a personal rating measured against one or more specific (financial and/or non-financial) objectives. The Chief Executive's personal rating is based on the achievement of Group profit. The maximum level of bonus paid to a participant in the plan is dependent on the achievement of both the maximum target for the profit before tax and after interest measure and the highest personal performance rating. Annual performance targets are set by the Committee based on a range of factors, including consensus analysts' profit forecasts and the Company's own internal budgets. The Committee sets a threshold, on-target and maximum pay-out target with straight-line vesting between those figures.

No bonus is paid unless both the threshold profit target and at least an acceptable personal rating are achieved. For a combination of an on-target PBT and a good personal rating, an executive would earn approximately 48 per cent of the maximum bonus payable under the plan.

For the year under review, Kate Swann had the opportunity to receive an annual bonus up to a maximum of 200 per cent of base salary and Robert Moorhead had the opportunity to receive an annual bonus up to a maximum of 130 per cent of base salary. The Company's performance of £93m was in excess of the maximum target set for financial performance and, therefore, the Committee approved maximum bonus payments under this measure for the financial year ended 31 August 2011. The overall bonuses earned in the year were 200 per cent in the case of Kate Swann and 120 per cent in the case of Robert Moorhead. No changes to the bonus plan are proposed in respect of the forthcoming financial year.

Long-term incentives

WH Smith 2008 Management Investment Plan ('MIP')

As disclosed last year, under this plan, executive directors and key senior executives were given the opportunity to invest their own money to buy ordinary shares in the Company and were granted matching awards to acquire further ordinary shares in proportion to the amount invested. Executive directors and certain other key executives could invest up to 150 per cent of base salary. For awards made in October 2010, the number of shares over which a matching award could be granted was up to four times the amount invested in the case of executive directors and up to 3.75 times the amount invested for other executives.

Following extensive consultation with shareholders, the Committee adopted a combination of financial and market-based measures as the basis for the performance targets which were aimed at delivering enhanced returns to shareholders. It believed that such a combination of targets was best suited to the needs of the Company and its shareholders.

For awards granted in October 2010, the extent to which matching awards vest will depend on the satisfaction of EPS and TSR performance targets.

The performance targets are as follows:

- a) Eighty per cent of the award is dependent on the satisfaction of an EPS performance target. EPS will be measured over the three years ending 31 August 2013 and will measure growth in fully diluted EPS before exceptional items. Threshold performance, which results in the vesting of 30 per cent of the shares, requires EPS growth at a compound rate equal to seven per cent per annum. Maximum performance, which results in the vesting of 100 per cent of the shares, requires EPS growth at a compound rate equal to 12 per cent per annum; and
- b) The remaining twenty per cent of the award is dependent on the satisfaction of a TSR performance target. The TSR target will compare the TSR on an investment in the Company's ordinary shares with the TSR on a notional investment in the FTSE All Share General Retailers Index constituents over the period between 14 October 2010 and the announcement of the Company's results in October 2013 for the year ending 31 August 2013. Threshold performance will require that the Company's TSR is at the median position relative to the comparator group. Maximum performance will require the Company's TSR to be at the 75th percentile relative to the comparator group.

For performance between these levels a matching award will vest on a pro-rata straight-line basis. The performance conditions will be tested separately.

The end of the TSR Performance Period is one month after the date of the announcement of the Company's results in October 2013. FIT independently carries out the relevant TSR calculations for the Company and will test the extent to which the TSR condition has or has not been met after the end of the performance period.

The Remuneration Committee must also be satisfied that there has been an improvement in the Company's underlying financial performance in determining whether any payment should be made in respect of the satisfaction of the TSR performance condition.

The performance conditions for awards granted under this plan in the financial year ended 31 August 2008 and 31 August 2009 were substantially met with 96.65 per cent of the awards vesting and the remaining 3.35 per cent being lapsed.

If the proposed new CIP is approved by shareholders, no further awards will be made under the MIP.

WH Smith LTIP

Under this plan, executive directors and key senior executives may be awarded each year conditional entitlements to ordinary shares in the Company up to a value of 200 per cent of base salary. The Committee adopted a combination of financial and market-based measures as the basis for the performance targets in order to reward long-term sustained performance. It believes that such a combination of targets is best suited to the needs of the Company and its shareholders. The Committee intends to make LTIP awards to executive directors and senior executives in November 2011. The Committee will conduct its annual review of the performance targets prior to the grant of awards in November 2011. For awards to be made from 2012 onwards it is envisaged that awards under the LTIP will be subject to suitably demanding EPS, TSR and dividend growth performance conditions.

The performance conditions for awards granted in the financial year ended 31 August 2011 were as follows:

- a) the performance condition applying to 60 per cent of the award shares is based on growth in the adjusted EPS of the Company over the three years ending 31 August 2013 (the 'Performance Period') and vesting will occur on the following basis:

Annual rate of growth in adjusted EPS of the Company (compounded annually) over the Performance Period	Proportion exercisable
Below 5%	Zero
5%	30%
10% or more	100%
Between the above points	Pro rata between 30% and 100%

For these purposes EPS will be determined by reference to fully diluted EPS before exceptional items, adjusted as considered appropriate by the Committee to ensure consistency; and

- b) the performance condition applying to the remaining 40 per cent of such an award is based on the TSR performance against the FTSE All Share General Retailers Index constituents over the Performance Period and vesting will occur on the following basis:

TSR performance ranking at end of the Performance Period	Proportion exercisable
Below median	Zero
Median	30%
Upper quartile	100%
Between the above points	Pro rata between 30% and 100%

The performance conditions for awards granted in the financial year ended 31 August 2010 are the same as those performance conditions for awards granted in the financial year ended 31 August 2011.

The performance conditions for awards granted under this plan in the financial year ended 31 August 2009 were substantially met with 91.5 per cent of the awards vesting and the remaining 8.5 per cent being lapsed.

FIT independently carries out the relevant TSR calculations for the Company.

Remuneration report continued

WH Smith share option schemes

The Company operates two types of share option scheme:

- an Executive Share Option Scheme which is used to grant options to executives up to an annual limit of 200 per cent of base salary. Options vest at the end of a three year period, subject to the satisfaction of performance conditions determined by the Committee. The executive directors did not participate in this scheme in the financial year ended 31 August 2011 and they do not hold outstanding awards in this scheme; and
- a HM Revenue & Customs Approved Save-As-You-Earn share option scheme (the 'Sharesave Scheme'). The Sharesave Scheme is open to all UK employees who have completed one year's service and who enter an approved savings contract for a fixed term. The maximum amount which can be saved is £250 per month, the total savings at the end of the term being used to purchase shares at a discount of up to 20 per cent of the market value. In common with most schemes of this type, there are no performance conditions applicable to options granted under the Sharesave Scheme.

Personal shareholdings

As part of the 2011 Remuneration Review, the Committee also introduced formal share ownership guidelines for executive directors which requires them to build and maintain a shareholding with a value of at least 175 per cent of salary in the case of Kate Swann and 150 per cent of salary in the case of Robert Moorhead. The guideline requires executives to retain 50 per cent (net of tax) of any shares acquired under any incentive plans until such time as the guideline is met.

Contracts of service

The contract dates and notice periods for each executive director are as follows:

	Date of contract	Notice period by Company	Notice period by director
Kate Swann	2 July 2003	1 year	9 months
Robert Moorhead	1 December 2008	1 year	9 months

It is the Company's policy to enter into contracts of employment with executive directors which may be terminated at any time by the Company upon 12 months' notice and upon nine months' notice by the executive director. Under the Company's policy, in the event of a change of control of the Company there is a provision in each executive director's contract which provides for a payment of liquidated damages of 95 per cent of salary and benefits if the contract is terminated in breach of the notice period. In other circumstances, the Committee believes that any question of compensation should be decided upon at the appropriate time rather than in advance so that the principle of mitigation is applied in the particular circumstances.

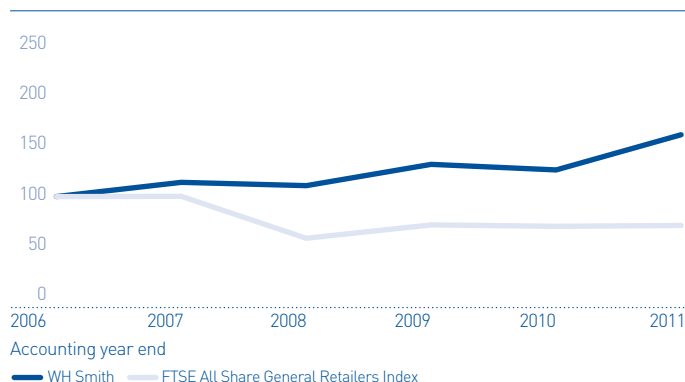
The Chairman, who has a letter of appointment, is appointed for an initial term of three years. His appointment may be terminated at any time by either the Company or the Chairman without notice.

The non-executive directors, who have letters of appointment, are appointed for an initial term of three years. These appointments can be terminated by either the Company or the non-executive director without notice.

Under the Company's Articles of Association, all directors are required to retire and submit themselves for re-election every three years. However, in accordance with the Code, the Board has agreed that all directors will stand for election or re-election at the AGM to be held on 25 January 2012.

Performance graph

Total Shareholder Return performance since 31 August 2006



- The graph illustrates the TSR performance on a cumulative basis (with dividends reinvested) as at the end of each of the last five financial years compared with the FTSE All Share General Retailers Index over the same period.
- WH Smith is a member of the FTSE All Share General Retailers Index and, as such, this sector was considered to be the most appropriate comparator group upon which a broad equity market index is calculated.

WH Smith Employee Benefit Trust

The WH Smith Employee Benefit Trust (the 'Trust') is used to facilitate the acquisition of ordinary shares in the Company for the purpose of satisfying awards and options granted under the Company's executive share schemes. The Trust is a discretionary trust, the sole beneficiaries being employees (including executive directors) and former employees of the Group and their close relations. The Trustee is Computershare Trustees (C.I.) Limited, an independent professional trustee company based in Jersey. It is the Company's intention to use the ordinary shares in the Trust to satisfy all outstanding awards and options made under the Company's executive share schemes.

Following share purchases of 2,741,769 shares, the number of WH Smith shares held in the Trust at 31 August 2011 was 5,858,599. The Group's accounting policy is detailed within Note 1 of the Accounts and movements are detailed in the Group's statement of changes in equity on page 42.

Dilution limits

Awards of long-term incentives are satisfied using market purchase shares. WH Smith's share plans comply with recommended guidelines on dilution limits and the Company has always operated within these limits.

Pensions

For the year under review, the Company operated a defined contribution pension scheme, the WH Smith Retirement Savings Plan. Under this scheme an executive director may contribute up to an amount equivalent to five per cent of salary which is then matched by the Company. In addition, a pension supplement is also payable which may be taken as an additional pension contribution or as an addition to basic pay. For the financial year ended 31 August 2011 the total contribution for Kate Swann was equivalent to 22 per cent of salary and for Robert Moorhead it was 20 per cent of salary.

External appointments

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

	Directorship	Received £'000s	Retained £'000s
Kate Swann	Babcock International Group PLC	13	13

PART B – Audited information

Directors' remuneration

The remuneration of the directors for the financial year ended 31 August 2011 was as follows:

	Salary/fees £'000s	Annual performance bonus £'000s	Benefits, pension supplement and other payments £'000s	Total £'000s	Year to 31 August 2010 £'000s
Walker Boyd	165	–	–	165	23
Kate Swann	525	1,049	80	1,654	1,326
Robert Moorhead	300	360	30	690	580
John Barton	35	–	–	35	45
Mike Ellis	46	–	–	46	46
Drummond Hall	46	–	–	46	46
Jeff Harris	10	–	–	10	–
Henry Staunton	40	–	–	40	–
Former directors	–	–	–	–	241
Total £'000s	1,167	1,409	110	2,686	2,307

a) John Barton retired as a director of the Company on 10 June 2011.

b) Jeff Harris was appointed as a director of the Company on 10 June 2011 and is paid a basic annual fee of £40,000. He was appointed as the Company's Senior Independent Director on 1 July 2011.

c) Benefits, pension supplement and other payments relate mainly to the provision of a company car, private medical insurance and any salary supplement paid in respect of pension entitlement.

Directors' pensions

The executive directors were members of the Company's defined contribution scheme during the year ended 31 August 2011:

	Employee contribution		Employer contribution	
	% of salary	£'000s	% of salary	£'000s
Kate Swann	5	26	22	117
Robert Moorhead	5	15	20	58

a) Executive directors receive a pension supplement which may be taken as an additional pension contribution or as an addition to basic pay. This payment, if taken as an addition to basic pay, is included in the table of Directors' remuneration under the heading Benefits, pension supplement and other payments. If so taken, it does not impact base salary for insurance or variable pay purposes.

b) The dependants of executive directors are eligible for payment of a lump sum in the event of death-in-service equivalent to four times salary.

Remuneration report continued

Long-term incentives

Share award schemes

Details of the conditional awards (in the form of nil-cost options (except where indicated in notes (e) and (f) below)) to acquire ordinary shares of the Company granted to executive directors are as follows:

	Date of grant	Number of shares subject to awards at 31 August 2010	Number of shares subject to awards granted during the year	Number of shares subject to awards released/exercised during the year	Number of shares subject to awards lapsed during the year	Number of shares subject to awards at 31 August 2011	Share price at date of grant (pence)	Release date/exercise period
Kate Swann								
WH Smith LTIP	21.10.08	301,006	–	–	–	301,006	348.83	Oct 2011 – 21.10.18
	05.11.09	211,110	–	–	–	211,110	497.37	05.11.12 – 05.11.19
	21.10.10	–	218,100	–	–	218,100	481.43	21.10.13 – 21.10.20
	22.11.07	1,217,441	–	1,176,613	40,828	–	316.75	Nov 2010 – Nov 2012
	21.10.10	–	653,663	–	–	653,663	481.90	Nov 2013 – Nov 2015
Total		1,729,557	871,763	1,176,613	40,828	1,383,879		
Robert Moorhead								
WH Smith LTIP	17.10.07	65,726	–	65,726	–	–	387.50	Oct 2010 – 17.10.17
	21.10.08	129,003	–	–	–	129,003	348.83	Oct 2011 – 21.10.18
	05.11.09	105,555	–	–	–	105,555	497.37	05.11.12 – 05.11.19
	21.10.10	–	124,629	–	–	124,629	481.43	21.10.13 – 21.10.20
	22.11.07	226,145	–	218,561	7,584	–	316.75	Nov 2010 – Nov 2012
WH Smith 2008 MIP	21.10.08	378,242	–	365,557	12,685	–	347.00	Nov 2010 – Nov 2012
	21.10.10	–	373,521	–	–	373,521	481.90	Nov 2013 – Nov 2015
Total		904,671	498,150	649,844	20,269	732,708		

a) The number of shares subject to awards is the maximum (100 per cent) number of shares that could be received by the executive if the performance targets are fully met.

b) The Company performance targets for awards granted on 17 October 2007 under the WH Smith LTIP were fully met.

c) In respect of the award granted on 17 October 2007 under the WH Smith LTIP held by Robert Moorhead, the value of the 65,726 Company shares on the date of exercise was £303,231.11 (461.3564p per ordinary share).

d) The Company achieved 96.6464 per cent of its performance targets for awards granted on 22 November 2007 and 21 October 2008 under the WH Smith 2008 MIP.

e) The award granted on 22 November 2007 under the WH Smith 2008 MIP held by Kate Swann vested in respect of 1,176,613 shares and lapsed in respect of 40,828 shares. 620,895 of the shares in respect of which the award vested were held as restricted shares in the WH Smith Employee Benefit Trust and those shares were released to Kate Swann on 15 November 2010 (on which date their value was £2,893,371 (466p per ordinary share)). Kate Swann exercised the award in respect of the remaining 555,718 shares and the value of such shares on the date of exercise was £2,563,840.56 (461.3564p per ordinary share).

f) The award granted on 22 November 2007 under the WH Smith 2008 MIP held by Robert Moorhead vested in respect of 218,561 shares and lapsed in respect of 7,584 shares. 210,250 of the shares in respect of which the award vested were held as restricted shares in the WH Smith Employee Benefit Trust and those shares were released to Robert Moorhead on 15 November 2010 (on which date their value was £979,765 (466p per ordinary share)). Robert Moorhead exercised the award in respect of the remaining 8,311 shares and the value of such shares on the date of exercise was £38,343.33 (461.3564p per ordinary share).

g) In respect of the award granted on 21 October 2008 under the WH Smith 2008 MIP held by Robert Moorhead, 365,557 shares became exercisable and 12,685 shares lapsed. The value of the 365,557 shares on the date of exercise was £1,686,520.62 (461.3564p per share).

h) Matching Awards granted under the WH Smith 2008 MIP will only vest to the extent that the performance targets as set out on page 33 are satisfied.

i) Awards granted under the WH Smith LTIP will only vest to the extent that the performance targets as set out on page 33 are satisfied.

j) No option price is payable on either the grant or exercise of any award.

k) No awards have been granted to or exercised by directors between 1 September 2011 and 13 October 2011.

Share option schemes

Details of the options to acquire ordinary shares of the Company granted to executive directors are as follows:

	Date of grant	Shares subject to options at 31 August 2010	Shares subject to options granted during the year	Shares subject to options which were exercised during the year	Shares subject to options which lapsed during the year	Shares subject to options at 31 August 2011	Option price (pence)	Exercise period
Robert Moorhead								
SAYE	02.06.10	2,266	–	–	–	2,266	400.40	01.08.13 – 31.01.14
Total		2,266	–	–	–	2,266		

a) The middle market price of an ordinary share at the close of business on 31 August 2011 was 499.10p (31 August 2010: 407.60p).

b) The high and low middle market prices of an ordinary share during the year were 523.00p and 413.50p respectively.

c) No options have been granted to or exercised by directors between 1 September 2011 and 13 October 2011.

Directors' interests in shares

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

	31 August 2011	31 August 2010 (or date of appointment)
Walker Boyd	35,000	35,000
Mike Ellis	4,527	4,527
Drummond Hall	10,000	10,000
Jeff Harris	–	–
Robert Moorhead	441,470	235,863
Henry Staunton	10,000	–
Kate Swann	932,119	384,790

There has been no change in the directors' interests shown above between 1 September 2011 and 13 October 2011.

Shareholder approval

A resolution to approve the Remuneration report is being proposed at the AGM.

By Order of the Board

Drummond Hall

Chairman of the Remuneration Committee

13 October 2011

Independent auditors' report

to the members of WH Smith PLC

We have audited the Group financial statements of WH Smith PLC for the year ended 31 August 2011 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Changes in Equity and the related Notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 auditors' 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 auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the Group 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 Group 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 (APB'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 Group'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. 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 Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 August 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement contained within the Directors' report in relation to going concern;
- the part of the Corporate Governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Other matters

We have reported separately on the parent company financial statements of WH Smith PLC for the year ended 31 August 2011 and on the information in the Directors' Remuneration Report that is described as having been audited.

**Stephen Griggs (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor**

London, United Kingdom

13 October 2011

Group income statement

For the year ended 31 August 2011

£m	Note	2011	2010
Continuing operations			
Revenue	2	1,273	1,312
Operating profit	2, 3	93	89
Investment income	8	1	1
Finance costs	9	(1)	(1)
Profit before tax		93	89
Income tax expense	10	(20)	(20)
Profit for the year		73	69
Earnings per share			
Basic	12	52.1p	47.6p
Diluted	12	51.4p	45.7p
Non GAAP measures			
Equity dividends per share ¹		22.5p	19.4p
Fixed charges cover	7	1.5x	1.5x

¹ Dividend per share is the final proposed dividend of 15.3p (2010: 13.3p) and the interim dividend of 7.2p (2010: 6.1p).

Group statement of comprehensive income

For the year ended 31 August 2011

£m	Note	2011	2010
Profit for the period		73	69
Other comprehensive income:			
Actuarial losses on defined benefit pension schemes	4	(14)	(12)
Exchange differences on translation of foreign operations		(1)	–
Mark to market valuation of derivative financial asset		–	(1)
Other comprehensive loss for the period, net of tax		(15)	(13)
Total comprehensive income for the period		58	56

Group balance sheet

As at 31 August 2011

£m	Note	2011	2010
Non-current assets			
Goodwill	13	32	32
Other intangible assets	14	24	24
Property, plant and equipment	15	151	158
Deferred tax assets	19	7	10
Trade and other receivables	16	4	4
		218	228
Current assets			
Inventories		154	151
Trade and other receivables	16	57	57
Current tax asset		7	21
Cash and cash equivalents	20	41	56
		259	285
Total assets		477	513
Current liabilities			
Trade and other payables	17	(247)	(246)
Current tax liabilities		(44)	(51)
Short-term provisions	18	(3)	(3)
		(294)	(300)
Non-current liabilities			
Retirement benefit obligation	4	–	(1)
Deferred tax liabilities	19	(6)	(6)
Long-term provisions	18	(6)	(5)
Other non-current liabilities		(15)	(15)
		(27)	(27)
Total liabilities		(321)	(327)
Total net assets		156	186
Total equity		156	186

£m	Note	2011	2010
Shareholders' equity			
Called up share capital	24	31	33
Share premium		2	1
Capital redemption reserve		6	4
Revaluation reserve		2	2
ESOP reserve		(25)	(29)
Hedging reserve		–	–
Translation reserve		(3)	(2)
Other reserve		(207)	(191)
Retained earnings		350	368
Total equity		156	186

The consolidated financial statements of WH Smith PLC, registered number 5202036, were approved by the Board of Directors and authorised for issue on 13 October 2011 and were signed on its behalf by:

Kate Swann
Group Chief Executive

Robert Moorhead
Group Finance Director

Group cash flow statement

For the year ended 31 August 2011

£m	Note	2011	2010
Net cash inflow from operating activities	22	118	104
Investing activities			
Interest received		–	1
Purchase of property, plant and equipment		(36)	(24)
Purchase of intangible assets		(5)	(5)
Proceeds on disposal of property, plant and equipment		5	–
Acquisition of business		(1)	–
Net cash outflow from investing activities		(37)	(28)
Financing activities			
Dividend paid		(29)	(26)
Purchase of own shares for cancellation		(55)	(35)
Purchase of own shares for employee share schemes		(12)	(4)
Repayments of obligations under finance leases		–	(2)
Net cash used in financing activities		(96)	(67)
Net (decrease)/increase in cash and cash equivalents in year		(15)	9
Opening net cash and cash equivalents		56	47
Closing net cash and cash equivalents		41	56

Reconciliation of net cash flow to movement in net funds

£m	Note	2011	2010
Net funds at beginning of the year		56	45
(Decrease)/Increase in cash and cash equivalents		(15)	9
Net movement in finance leases		–	2
Net funds at end of the year	20	41	56

Group statement of changes in equity

For the year ended 31 August 2011

£m	Share capital and share premium	Capital redemption reserve	Revaluation reserve	ESOP reserve	Hedging and translation reserves	Other reserve ¹	Retained earnings	Total
Balance at 1 September 2010	34	4	2	(29)	(2)	(191)	368	186
Total comprehensive (loss)/income for the period	–	–	–	–	(1)	–	59	58
Recognition of share-based payments	–	–	–	–	–	–	8	8
Deferred tax on share-based payments	–	–	–	–	–	–	(1)	(1)
Premium on issue of shares	1	–	–	–	–	–	–	1
Dividends paid	–	–	–	–	–	–	(29)	(29)
Employee share schemes	–	–	–	4	–	(16)	–	(12)
Purchase of own shares for cancellation	(2)	2	–	–	–	–	(55)	(55)
Balance at 31 August 2011	33	6	2	(25)	(3)	(207)	350	156
Balance at 1 September 2009	35	2	2	(28)	(1)	(187)	365	188
Total comprehensive (loss)/income for the period	–	–	–	–	(1)	–	57	56
Recognition of share-based payments	–	–	–	–	–	–	7	7
Premium on issue of shares	1	–	–	–	–	–	–	1
Dividends paid	–	–	–	–	–	–	(26)	(26)
Employee share schemes	–	–	–	(1)	–	(4)	–	(5)
Purchase of own shares for cancellation	(2)	2	–	–	–	–	(35)	(35)
Balance at 31 August 2010	34	4	2	(29)	(2)	(191)	368	186

¹ The 'Other' reserve includes reserves created in relation to the historical capital reorganisation, pro forma restatement and the demerger from Smith News PLC in 2006, as well as movements relating to employee share schemes of £16m (2010: £4m).

Notes to the accounts

1. Accounting policies

a) Basis of preparation

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

The consolidated Group financial statements have also been prepared in accordance with IFRS adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation. The consolidated financial statements have been prepared on a going concern basis as explained on page 28 of the Directors' report and business review.

New standards

The Group has adopted the following standards and interpretations which became mandatory during the current financial year, but have had no material impact on the Group's financial statements:

IAS 32 (Revised)	Classifications of Rights Issues
IAS 39 (Revised)	Financial Instruments: Recognition and Measurement
IFRIC 17	Distributions of Non-cash Assets to Owners
IFRIC 18	Transfer of Assets from Customers
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments
Amendments to IFRS 2	Group cash-settled share-based payment transactions
Annual Improvements to IFRS (issued April 2009)	
Annual Improvements to IFRS (issued May 2010)	

At the date of authorisation of these consolidated Group financial statements, the following Standards and Interpretations, which have not been applied in these financial statements, were in issue but not yet effective:

Amendment to IAS 12	Deferred Tax: Recovery of Underlying Assets
IAS 19 (Revised)	Employee Benefits
IAS 24 (Revised)	Related Party Disclosures
IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
Amendment to IFRIC 14	Prepayments of a Minimum Funding Requirement

The directors will consider the potential impact of adoption of these Standards and Interpretations on the Group's financial statements in due course.

Accounting convention

The financial statements are drawn up on the historical cost basis of accounting. The financial information is rounded to the nearest million, except where otherwise indicated. The principal accounting policies, which have been applied consistently throughout both years, are set out below.

Basis of consolidation

The consolidated Group financial statements incorporate the financial statements of WH Smith PLC and all its subsidiaries up to the year end date.

Subsidiary undertakings are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights so to obtain benefits from its activities.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, after taking into account recognised goodwill, the excess is immediately recognised in the income statement.

The separable net assets, both tangible and intangible, of the newly acquired subsidiary undertakings are incorporated into the financial statements on the basis of the fair value as at the effective date of control, if appropriate.

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

All intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated.

b) Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services to customers, together with commission and fee income on concession and franchise arrangements. Revenue excludes discounts, estimated returns, VAT and other sales-related taxes.

Revenue on store sales of goods and concession sales is recognised when goods are sold to the customer. Internet sales are recognised when the goods are delivered to the customer and title has passed. Revenue from gift vouchers and gift cards sold by the Group is recognised on the redemption of the gift voucher or gift card. Franchise and concession fees are recognised in revenue based on the terms of the contracts.

1. Accounting policies (continued)

c) Retirement benefit costs

Payments to the WH Smith Group defined contribution pension schemes are recognised as an expense in the income statement as they fall due.

The cost of providing benefits for the main defined benefit scheme, WHSmith Pension Trust, and the acquired United News Shops Retirement Benefits Scheme are determined by the Projected Unit Credit Method, with actuarial calculations being carried out at the balance sheet date.

Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement in the Group Statement of Comprehensive Income.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation, as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from the calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

d) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value determined at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and a reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised directly in the income statement.

Rentals payable and receivable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term. The Group has a number of lease arrangements in which the rent payable is contingent on revenue. Contingent rentals payable, based on store revenues, are accrued in line with revenues generated.

e) Intangible assets

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control, of the acquiree. Costs directly attributable to the business combination are recognised in the income statement in the period they are incurred. The cost of a business combination is allocated at the acquisition date by recognising the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at that date. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree. Intangible assets are recognised if they meet the definition of an intangible asset contained in IAS 38 and its fair value can be measured reliably. The excess of the cost of acquisition over the fair value of the Group's share of identifiable net assets acquired is recognised as goodwill.

Goodwill

Goodwill represents the excess of the fair value of purchase consideration over the net fair value of identifiable assets and liabilities acquired.

Goodwill is recognised as an asset at cost and subsequently measured at cost less accumulated impairment. For the purposes of impairment testing, goodwill is allocated to those cash generating units that have benefited from the acquisition. The carrying value of goodwill is reviewed for impairment at least annually or where there is an indication that goodwill may be impaired. If the recoverable amount of the cash generating unit is less than its carrying amount, then the impairment loss is allocated first to reduce the carrying amount of the goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit and loss on disposal.

Other intangible assets

The costs of acquiring and developing software that is not integral to the related hardware is capitalised separately as an intangible asset. These intangibles are stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged so as to write off the costs of assets over their estimated useful lives, using the straight-line method. The estimated lives are usually a period of up to five years. Software assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

Other intangible assets are valued at cost and amortised over their useful life unless the asset can be demonstrated to have an indefinite life.

All intangible assets are reviewed for impairment in accordance with IAS 36, Impairment of Assets, when there are indications that the carrying value may not be recoverable.

f) Property, plant and equipment

Property, plant and equipment assets are carried at cost less accumulated depreciation and any recognised impairment in value. The carrying values of tangible fixed assets previously revalued have been retained at their book amount. Depreciation is charged so as to write off the costs of assets, other than land, over their estimated useful lives, using the straight-line method, with the annual rates applicable to the principal categories being:

Freehold properties	– over 20 years
Short-leasehold properties	– shorter of the lease period and the estimated remaining economic life
In-store fixtures and fittings	– up to ten years
Equipment and vehicles	– eight to ten years
Computer equipment	– up to five years

The residual values of property, plant and equipment are re-assessed on an annual basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

At each balance sheet date, property, plant and equipment is reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of expected future pre-tax cash flows of the relevant cash-generating unit or fair value, less costs to sell, if higher. Any impairment in value is charged to the income statement in the period in which it occurs.

g) Inventories

Inventories comprise goods held for resale and are stated at the lower of cost or net realisable value. Concession stocks are not included within stocks held by the Group. Inventories are valued using a weighted average cost method.

Cost is calculated to include, where applicable, duties, handling, transport and directly attributable costs in bringing the inventories to their present location and condition. Net realisable value is based on estimated normal selling prices less further costs expected to be incurred in selling and distribution. Cost of inventories includes the transfer from equity of any gains or losses on qualifying cash flow hedges relating to purchases.

Provisions are made for obsolescence, markdown and shrinkage.

h) Provisions

Provisions are recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date. Where the effect is material, the provision is determined by discounting the expected future cash flows at the Group's weighted average cost of capital.

Onerous contracts – property provisions

The Group'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 periodic unwinding of the discount is treated as an imputed interest charge and is disclosed in Note 9 as 'unwinding of discount on provisions'.

i) Foreign currencies

Transactions denominated in foreign currencies are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the period.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts and options (see opposite for details of the Group's accounting policies in respect of such derivative financial instruments).

On consolidation the assets and liabilities of the Group's overseas operations are translated into sterling at exchange rates prevailing on the balance sheet date. Income and expense items are translated into sterling at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve.

j) Taxation

The tax expense included in the income statement comprises current and deferred tax.

Current tax is the expected tax payable based on the taxable profit for the period, using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the accounts and the corresponding tax bases used in the computation

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

Current and deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the current or deferred tax is also recognised directly in equity.

k) Financial instruments

Trade receivables

Trade receivables are measured at initial recognition, do not carry any interest and are stated at their fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is evidence that the asset is impaired.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value (being proceeds received, net of direct issue costs), and are subsequently measured at amortised cost, using the effective interest rate method recorded as the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemptions and direct issue costs are accounted for on an accruals basis and taken to the income statement using the effective interest rate method and are added to the carrying value of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

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

Equity instruments

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

Derivative financial instruments and hedge accounting

The Group uses certain derivative financial instruments to reduce its exposure to foreign exchange and interest rate movements. The Group does not hold or use derivative financial instruments for speculative purposes.

1. Accounting policies (continued)

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and any ineffective portion is recognised immediately in the income statement.

If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net income.

For an effective hedge of an exposure to changes in the fair value of a recognised asset or liability, changes in fair value of the hedging instrument are recognised in profit or loss at the same time that the recognised asset or liability that is being hedged is adjusted for movements in the hedged risk and that adjustment is also recognised in profit or loss in the same period.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the net profit or loss for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

l) Share schemes

WH Smith Employee Benefit Trust

The shares held by the WH Smith Employee Benefit Trust are valued at the historical cost of the shares acquired. They are deducted in arriving at shareholders' funds and are presented as an other reserve.

Share-based payments

Employees of the Group receive part of their remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity settled transactions).

Equity settled share-based payments are measured at fair value at the date of grant. The fair value is calculated using an appropriate option pricing model. The fair value is expensed to the income statement on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

m) Dividends

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

n) Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with general 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 Group are those requiring the greatest degree of subjective or complex judgement. These relate to retirement benefit obligations, valuation of goodwill and acquired intangible assets, onerous lease costs, inventory valuation and taxation.

Retirement benefit obligation

The Group recognises and discloses its retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19, 'Retirement Benefit Obligations'. The calculations include a number of judgements and estimations in respect of the expected rate of return on assets, 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.

In order to reduce the volatility in the underlying investment performance substantially and reduce the risk of a significant increase in the obligation, a new investment policy in respect of the assets of the WHSmith Pension Trust was adopted in September 2005. This is discussed in more detail in Note 4.

Goodwill, intangible assets and property, plant and equipment impairment reviews

The Group is required to review goodwill annually to determine if any impairment has occurred. Value-in-use calculations require the use of estimates in relation to future cash flows and suitable discount rates.

Property, plant and equipment and intangible assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted the recoverable amount of an asset or a cash generating unit is determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates.

Inventory valuation

Inventory is carried at the lower of cost and net realisable value which requires the estimation of the eventual sales price of goods to customers in the future. Any difference between the expected and the actual sales price achieved will be accounted for in the period in which the sale is made.

Provisions

Provisions have been estimated for 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 market-place 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.

2. Segmental analysis of results

For management and financial reporting purposes, the Group is organised into two operating divisions – High Street and Travel. These divisions are the basis on which the Group reports its IFRS 8 operating segment information.

a) Group revenue

£m	2011	2010
Continuing operations:		
Travel	455	452
High Street	818	860
Group revenue	1,273	1,312

b) Group results

£m	2011	2010
Continuing operations:		
Travel	57	53
High Street	52	51
Profit from trading operations	109	104
Unallocated costs	(16)	(15)
Profit before finance charges and taxation	93	89
Investment income	1	1
Finance costs	(1)	(1)
Income tax expense	(20)	(20)
Profit for the year	73	69

c) Balance sheet

	2011				
£m	Travel	High Street	Continuing operations	Discontinued operations	Group
Assets					
Segment assets	125	299	424	–	424
Unallocated assets	–	–	53	–	53
Consolidated total assets	125	299	477	–	477
Liabilities					
Segment liabilities	(70)	(175)	(245)	(5)	(250)
Unallocated liabilities	–	–	(71)	–	(71)
Consolidated total liabilities	(70)	(175)	(316)	(5)	(321)
Net assets/(liabilities)	55	124	161	(5)	156

	2010				
£m	Travel	High Street	Continuing operations	Discontinued operations	Group
Assets					
Segment assets	119	312	431	–	431
Unallocated assets	–	–	82	–	82
Consolidated total assets	119	312	513	–	513
Liabilities					
Segment liabilities	(64)	(178)	(242)	(5)	(247)
Unallocated liabilities	–	–	(80)	–	(80)
Consolidated total liabilities	(64)	(178)	(322)	(5)	(327)
Net assets/(liabilities)	55	134	191	(5)	186

Segment assets include intangible assets, property, plant and equipment, inventories and receivables. Segment liabilities comprise operating liabilities.

Discontinued operations include property provisions relating to reversionary leases and provisions for discontinued operations (USA Travel).

2. Segmental analysis of results (continued)**d) Other segmental items**

£m	2011				Group
	Travel	High Street	Continuing operations	Discontinued operations	
Capital additions	13	23	36	–	36
Depreciation and amortisation of non-current assets	(9)	(27)	(36)	–	(36)
Impairment losses	(1)	(1)	(2)	–	(2)

£m	2010				Group
	Travel	High Street	Continuing operations	Discontinued operations	
Capital additions	11	23	34	–	34
Depreciation and amortisation of non-current assets	(8)	(28)	(36)	–	(36)
Impairment losses	(2)	(1)	(3)	–	(3)

Segment assets include intangible assets, property, plant and equipment, inventories and receivables. Segment liabilities comprise operating liabilities.

3. Group operating profit

£m	2011	2010
Turnover	1,273	1,312
Cost of sales	(611)	(650)
Gross profit	662	662
Distribution costs ¹	(490)	(495)
Administrative expenses	(83)	(80)
Other income ¹	4	2
Group operating profit	93	89

¹ Other income is profit attributable to property and the sale of plant and equipment. During the period there was a £2m impairment charge for property, plant and equipment and other intangible assets included in distribution costs (2010: £3m).

£m	2011	2010
Cost of inventories recognised as an expense	611	650
Write-down of inventories in the period	4	6
Depreciation and amounts written off property, plant and equipment	32	34
Amortisation and amounts written off intangible assets	6	5
Net operating lease charges		
– land and buildings	183	181
– equipment and vehicles	1	1
Other occupancy costs	62	62
Staff costs (Note 5)	198	203
Auditors' remuneration (see below)	–	–
Fees payable to Deloitte LLP, the Group's auditors, included in the income statement relate to:		
Fees payable to the Group's auditors for the audit of the Group's annual accounts	0.2	0.1
Fees payable to the Group's auditors for other services to the Group including the audit of the Company's subsidiaries	0.1	0.1
Total audit fees	0.3	0.2
Non-audit fees including taxation and other services	0.1	0.1
	0.4	0.3

A description of the work performed by the Audit Committee is set out in the Corporate Governance section of the Directors' Report and Business Review and includes an explanation of how auditor objectivity and independence are safeguarded when non-audit services are provided by auditors. Non-audit fees relate to taxation, turnover rent certification and advice in relation to renewal of bank facilities.

4. Retirement benefit obligation

WH Smith PLC has operated a number of defined benefit and defined contribution pension plans. The main pension arrangements for employees are operated through a defined benefit scheme, WHSmith Pension Trust, and a defined contribution scheme, WHSmith Retirement Savings Plan. The most significant scheme is WHSmith Pension Trust, which is described in Note 4 a) i).

The retirement benefit obligations recognised in the balance sheet within non-current liabilities for the respective schemes at the relevant reporting dates were:

£m	2011	2010
WHSmith Pension Trust	–	–
United News Shops Retirement Benefits Scheme	–	(1)
Retirement benefit obligation recognised in the balance sheet	–	(1)

a) Defined benefit pension schemes

i) The WHSmith Pension Trust

The WHSmith Pension Trust was closed to defined benefit service accrual on 2 April 2007 and has been closed to new members since 1996. The WHSmith Pension Trust is independent of the Group and is administered by a Trustee.

In September 2005, the Pension Trust Trustee adopted a new investment policy. The assets in the investment fund were restructured and substantially invested such that they are expected to alter in value in line with changes in the pension liability caused by changes in interest and inflation (a Liability Driven Investment ('LDI') policy). A full actuarial valuation of the Scheme is carried out every three years with interim reviews in the intervening years. The latest full actuarial valuation of the Pension Trust was carried out as at 31 March 2009 by independent actuaries using the projected unit credit method. Following this valuation, the deficit was £113m, and a revised deficit funding schedule of £11m per annum (subject to indexation) over the following ten years was agreed with the Trustee. During the year, the Group made a contribution of £14m to the WHSmith Pension Trust (2010: £13m) in accordance with the agreed pension deficit funding schedule, which includes a catch-up payment relating to the period from 31 March 2009 to the date that the revised contributions started to be paid.

The amounts recognised in the balance sheet in relation to this plan are as follows:

£m	2011	2010
Present value of the obligations	(716)	(761)
Fair value of plan assets	785	786
Surplus in the scheme	69	25
Amounts not recognised	(69)	(25)
Retirement benefit obligation recognised in the balance sheet	–	–

The pension scheme is closed to further accrual and given the LDI policy adopted by the Pension Trustee, the present value of the economic benefits of the IAS 19 surplus in the pension scheme of £69m (2010: £25m) available on a reduction of future contributions is £nil (2010: £nil). As a result the Group has not recognised this IAS 19 surplus on the balance sheet. Following a change in investment managers the fair value of plan assets at 31 August 2010 has been re-presented to reflect a change in valuation on a section of the scheme's assets. This has no impact on the Group's primary statements as at 31 August 2010. Included in the movement in the surplus during the period is the effect of the switch from RPI to CPI on future deferred member liabilities.

The valuation of the defined benefit pension scheme used for the IAS 19 disclosures is based upon the most recent valuation. Scheme assets are stated at their market value at the relevant reporting date.

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

%	2011	2010
Rate of increase in pension payments	3.52	3.26
Rate of increase in deferred pensions	2.62	3.26
Discount rate	5.37	4.87
RPI inflation assumption	3.52	3.26
CPI inflation assumption	2.62	–

The amounts recognised in the income statement were as follows:

£m	2011	2010
Current service cost	–	–
Interest cost	(37)	(37)
Expected return on scheme assets	38	37
	1	–

4. Retirement benefit obligation (continued)**a) Defined benefit pension schemes (continued)****i) The WHSmith Pension Trust (continued)**

The charge for the current service cost has been included in administrative costs. The interest cost net of the expected return on scheme assets has been included in investment income (Note 8). Actuarial gains and losses have been reported in the statement of comprehensive income.

Total income/(expense) recognised in the Statement of Comprehensive Income ('SOI'):

£m	2011	2010
Actuarial gains/(losses)	29	(14)
Amounts not recognised	(44)	1
	(15)	(13)

In addition, a £1m credit (2010: £1m credit) has been recognised in the statement of comprehensive income in relation to actuarial gains in the year on the United News Shops Retirement Benefits Scheme.

The total cumulative actuarial loss recognised in the statement of comprehensive income since the 'sectionalisation' of the scheme on demerger from Smith News PLC on 31 August 2006 is £24m (2010: loss of £9m).

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

£m	2011	2010
At 1 September	(761)	(717)
Current service cost	–	–
Interest cost	(37)	(37)
Actuarial gains/(losses)	61	(28)
Benefits paid	21	21
At 31 August	(716)	(761)

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

£m	2011	2010
At 1 September	786	743
Expected return on scheme assets ¹	38	37
Actuarial gains/(losses)	(32)	14
Contributions from the sponsoring companies	14	13
Benefits paid	(21)	(21)
At 31 August	785	786

¹ The actual return on scheme assets was a gain of £7m (2010: gain of £51m).

An analysis of the defined benefit scheme assets at the balance sheet date is detailed below:

£m	2011	2010
Liquid cash funds	650	670
Inflation swaps	106	81
Equity call options	29	35
	785	786

The expected rate of return on the defined benefit scheme assets is calculated as a weighted average of the expected return on the LDI fund and the equity call options. At 31 August 2011 this was 4.57 per cent (2010: 4.48 per cent).

The mortality assumptions (in years) underlying the value of the accrued liabilities for both 2010 and 2011 are:

	2011		2010	
	Male	Female	Male	Female
Life expectancy at age 65				
Member currently aged 65	21.5	23.4	21.4	23.3
Member currently aged 45	23.4	25.2	23.3	25.1
Life expectancy at age 60				
Member currently aged 60	26.2	28.1	26.1	28.0
Member currently aged 45	27.7	29.6	27.6	29.5

The five-year history of experience adjustments is as follows:

£m	2011	2010	2009	2008	2007
Present value of defined benefit obligations	(716)	(761)	(717)	(662)	(657)
Fair value of scheme assets	785	786	743	793	657
Surplus/(deficit) in the scheme	69	25	26	131	-
Experience adjustments on scheme liabilities					
Amount (£m)	(8)	(2)	26	14	22
Percentage of scheme liabilities (%)	1	-	(4)	(2)	(3)
Experience adjustments on scheme assets					
Amounts (£m)	(32)	14	(80)	110	1
Percentage of scheme assets (%)	(4)	2	(11)	14	-

ii) United News Shops Retirement Benefits Scheme

United News Shops Retirement Benefits Scheme is closed to new entrants. The scheme provides pension benefits for pensioners and deferred members. A full actuarial valuation of the Scheme is carried out every three years with interim reviews in the intervening years. The latest full actuarial valuation of the Pension Trust was carried out at 5 April 2009 by independent actuaries. Following this valuation, the deficit was £1m.

The valuation of the defined benefit pension scheme used for the IAS 19 disclosures is based on consistent assumptions to those used for valuing the WHSmith Pension Trust. Scheme assets are stated at their market value at the relevant reporting date. The deficit funding contributions are immaterial in the context of these financial statements.

The present value of obligations and fair value of assets are consistent with their acquisition valuations and are stated below.

£m	2011	2010
Present value of the obligations	(4)	(5)
Fair value of plan assets	4	4
Retirement benefit obligation recognised in the balance sheet	-	(1)

During the year a £1m credit (2010: £1m credit) has been recognised in the statement of comprehensive income in relation to actuarial gains in the year on the United News Shops Retirement Benefits Scheme.

b) Defined contribution pension scheme

The pension cost charged to income for the Group's defined contribution schemes amounted to £3m for the year ended 31 August 2011 (2010: £3m).

5. Staff costs and employees

a) Staff costs

The aggregate remuneration of employees was:

£m	2011	2010
Wages and salaries	174	181
Social security	13	12
Net pension cost	3	3
Employee share schemes	8	7
Total Group	198	203

b) Employee numbers

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

Number	2011	2010
Total retailing	16,240	16,822
Support functions	33	36
Total Group	16,273	16,858

6. Operating lease commitments

Amounts recognised in operating profit:

£m	2011	2010
Minimum lease payments	179	177
Contingent rent payments	11	12
Total rent paid	190	189
Sublease rentals received on operating leases	(6)	(7)
Net operating lease charges	184	182

Minimum lease payments under non-cancellable operating leases for land and buildings are payable as follows:

£m	2011	2010
Within one year	166	161
Within two to five years	546	524
In more than five years	417	362
	1,129	1,047

The Group leases various properties under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. Contingent rents are payable on certain store leases based on store revenue. For those leases that are turnover-related leases, the annual net lease commitment is calculated using the minimum lease liability. The total future external sublease receipts are £13m (2010: £16m).

The average lease length across the Group is seven years with Travel and High Street both at seven years.

In addition the Group leases various equipment and vehicles which have a total lease commitment of less than £1m (2010: less than £1m).

Potential liabilities (not included above) that could crystallise under previous assignments of leases where the liability would revert to the Group if the lessee defaulted are discussed in Note 21.

7. Fixed charges cover

£m	2011	2010
Net finance charges	–	–
Net operating lease rentals	184	182
Total fixed charges	184	182
Profit before tax	93	89
Profit before tax and fixed charges	277	271
Fixed charges cover – times	1.5x	1.5x

8. Investment income

£m	2011	2010
Interest on bank deposits	–	1
Net income on pension schemes (Note 4)	1	–
	1	1

9. Finance costs

£m	2011	2010
Unwinding of discount on provisions	1	1
	1	1

10. Income tax expense

£m	2011	2010
Tax on profit from continuing operations	28	27
Standard rate of UK corporation tax 27.16% (2010: 28%)		
Adjustment in respect of prior year UK corporation tax	(10)	(4)
Total current tax charge – continuing operations	18	23
Deferred tax – current year	–	(1)
Deferred tax – prior year	2	(2)
Tax on profit – continuing operations	20	20
<i>Effective tax rate on continuing activities</i>	<i>21%</i>	<i>23%</i>

Reconciliation of the taxation charge

£m	2011	2010
Tax on profit from continuing operations at standard rate of UK corporation tax 27.16% (2010: 28%)	25	25
Tax effect of items that are not deductible or not taxable in determining taxable profit	3	1
Adjustment in respect of prior years	(8)	(6)
Tax charge – continuing operations	20	20

The UK corporation tax rate fell to 26 per cent with effect from 1 April 2011 (previously 28 per cent). The rate of corporation tax will change from 26 per cent to 25 per cent with effect from 1 April 2012. The UK government has also indicated that it intends to enact future reductions in the UK corporation tax rate of one per cent each year until 1 April 2014 at which date the UK standard rate of corporation tax will be 23 per cent.

11. Dividends

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

£m	2011	2010
Dividends		
Interim dividend of 7.2p per ordinary share (2010: 6.1p per ordinary share)	10	9
Final dividend of 13.3p per ordinary share (2010: 11.3p per ordinary share)	19	17
	29	26

The proposed dividend of 15.3p per share, amounting to a final dividend of £20m, is not included as a liability in these financial statements and, subject to shareholder approval, will be paid on 2 February 2012 to shareholders on the register at the close of business on 6 January 2012.

12. Earnings per share

a) Earnings

£m	2011	2010
Earnings attributable to shareholders	73	69

b) Basic and diluted earnings per share

Pence	2011	2010
Basic	52.1	47.6
Diluted	51.4	45.7

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

c) Weighted average share capital

Millions	2011	2010
Weighted average shares in issue for earnings per share	140	145
Add weighted average number of ordinary shares under option	2	6
Weighted average ordinary shares for diluted earnings per share	142	151

13. Goodwill

	£m
Cost	
At 1 September 2010	32
Additions	–
At 31 August 2011	32
Accumulated impairment	
At 1 September 2010	–
Impairment charge	–
At 31 August 2011	–
Net book value at 31 August 2011	32

Cost	
At 1 September 2009	32
Additions	–
At 31 August 2010	32
Accumulated impairment	
At 1 September 2009	–
Impairment charge	–
At 31 August 2010	–
Net book value at 31 August 2010	32

The carrying value of goodwill is allocated to the segmental businesses as follows:

£m	2011	2010
Travel	21	21
High Street	11	11
	32	32

Goodwill has been tested for impairment by comparing the carrying amount of each cash generating unit ('CGU'), including goodwill, with the recoverable amount determined from value-in-use calculations. Management has determined that no impairment was necessary for the current financial year (2010: £nil).

All goodwill relates to the acquisitions of groups of retail stores and each CGU is sensitive to movements in the same key assumptions. The key assumptions on which forecast three-year cash flows of the CGUs are based include sales growth, product mix and operating costs. The values assigned to each of these assumptions were determined based on the extrapolation of historical trends within the Group, and external information on expected future trends in the UK retail industry.

These cash flows are extrapolated for an additional nine years (representing the average length of the lease for the relevant group of stores) based on long-term growth rates. The long-term growth rates used are between 2.25 per cent and 2.5 per cent, reflecting expected retail price index growth. The rate used to discount the forecast cash flows is ten per cent pre-tax (2010: ten per cent).

A sensitivity analysis has been performed in assessing recoverable amounts of goodwill. This has been based on changes in key assumptions considered to be possible by management. This included an increase in the discount rate of up to one per cent and a decrease in the long-term growth rate of up to one per cent. The sensitivity analysis shows that no impairment would arise under each scenario.

14. Other intangible assets

Other intangible assets comprise capitalised software costs that are not deemed to be an integral part of the related hardware (which is classified within property, plant and equipment) and certain tenancy rights.

The amortisation period for capitalised software costs is over a maximum period of five years. Other intangible assets are either considered to have an indefinite life, therefore no amortisation has been charged, or are amortised over their useful economic life. These assets are reviewed annually for impairment.

	£m
Cost	
At 1 September 2010	58
Additions	5
Acquisitions through business combinations	1
At 31 August 2011	64
Accumulated amortisation	
At 1 September 2010	34
Amortisation charge	6
At 31 August 2011	40
Net book value at 31 August 2011	24
Cost	
At 1 September 2009	53
Additions	5
At 31 August 2010	58
Accumulated amortisation	
At 1 September 2009	29
Amortisation charge	5
At 31 August 2010	34
Net book value at 31 August 2010	24

Included in the net book value of other intangible assets are software costs of £15m (2010: £15m), and tenancy agreements of £9m (2010: £9m). Included in other intangible assets are certain assets considered to have an indefinite life, representing certain rights under tenancy agreements, which include the right to renew leases. Management has determined that the useful economic life of these assets is indefinite because the Company can continue to occupy and trade from certain premises for an indefinite period.

During the period the Group acquired 22 leasehold properties, together with the associated employees, from the administrators of British Bookshops and Stationers Limited (in administration) for a cash consideration of £1m. The fair value of net assets acquired was £1m, being intangible assets relating to tenancy rights. Details of revenues and profits generated have not been disclosed as the revenue generated is not material in the context of these financial statements. No pro forma information for the financial year has been included, as the acquired stores have been amalgamated within the existing store portfolio rendering any disclosure impractical.

15. Property, plant and equipment

£m	Land & Buildings		Fixtures & fittings	Equipment & vehicles	Total
	Freehold properties	Short-term leasehold			
Cost or valuation:					
At 1 September 2010	21	152	137	80	390
Additions	5	11	5	9	30
Disposals	(5)	(5)	(4)	(11)	(25)
At 31 August 2011	21	158	138	78	395
Accumulated depreciation:					
At 1 September 2010	9	84	87	52	232
Depreciation charge	1	10	9	10	30
Impairment charge	–	1	1	–	2
Disposals	–	(5)	(4)	(11)	(20)
At 31 August 2011	10	90	93	51	244
Net book value at 31 August 2011	11	68	45	27	151
Cost or valuation:					
At 1 September 2009	19	145	130	73	367
Additions	–	11	9	9	29
Reclassification	2	(2)	–	–	–
Disposals	–	(2)	(2)	(2)	(6)
At 31 August 2010	21	152	137	80	390
Accumulated depreciation:					
At 1 September 2009	7	76	78	43	204
Depreciation charge	1	10	10	10	31
Impairment charge	–	1	1	1	3
Reclassification	1	(1)	–	–	–
Disposals	–	(2)	(2)	(2)	(6)
At 31 August 2010	9	84	87	52	232
Net book value at 31 August 2010	12	68	50	28	158

The net book value of finance leases contained within these balances is £nil at 31 August 2011 (31 August 2010: £3m).

16. Trade and other receivables

£m	2011	2010
Current debtors		
Trade debtors	20	21
Other debtors	13	12
Prepayments and accrued income	24	24
	57	57
Non-current debtors		
Prepayments and accrued income	4	4
Total trade and other receivables	61	61

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

£m	2011	2010
Trade and other receivables gross	36	35
Allowance for doubtful debts	(3)	(2)
Trade and other receivables net	33	33
Of which:		
Amounts neither impaired nor past due on the reporting date	30	29
Amounts past due but not impaired		
Less than one month old	2	3
Between one and three months old	1	1
Between three and six months old	–	–
Between six months and one year old	–	–
Trade and other receivables net carrying amount	33	33

An allowance has been made for estimated irrecoverable amounts from the sale of goods at 31 August 2011 of £3m (31 August 2010: £2m). This allowance reflects the application of the Group's provisioning policy in respect of bad and doubtful debts and is based upon the difference between the receivable value and the estimated net collectible amount. The Group establishes its provision for bad and doubtful debts by reference to past default experience. No collateral is held for amounts past due but not impaired.

No trade and other receivables that would have been past due or impaired were renegotiated during the year. No interest is charged on the receivables balance. The other classes within trade and other receivables do not include impaired assets. The Group does not hold collateral over these balances. The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

At 31 August 2011, trade and other receivables of £3m (2010: £2m) were either partially or fully impaired. The ageing analysis of these receivables is as follows:

£m	2011	2010
Less than one month old	–	–
Between one and three months old	–	–
Between three and six months old	1	1
Between six months and one year old	2	1
	3	2

17. Trade and other payables – current

£m	2011	2010
Trade payables	96	91
Other tax and social security	24	20
Other creditors	66	70
Accruals and deferred income	61	65
	247	246

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 56 days (2010: 53 days). The directors consider that the carrying amount of trade and other payables approximates to their fair value.

18. Provisions

£m	Property provision	Disposal provision	Contingent consideration provision	Total
At 1 September 2010	7	1	–	8
Charge in the year	1	–	1	2
Utilised in year	(2)	–	–	(2)
Unwinding of discount	1	–	–	1
At 31 August 2011	7	1	1	9

£m	Property provision	Disposal provision	Contingent consideration provision	Total
At 1 September 2009	7	1	–	8
Charge in the year	1	–	–	1
Utilised in year	(2)	–	–	(2)
Unwinding of discount	1	–	–	1
At 31 August 2010	7	1	–	8

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

£m	2011	2010
Included in current liabilities	3	3
Included in non-current liabilities	6	5
	9	8

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.

The disposal provision arose from commitments in respect of the disposal of the USA Travel business. The remaining provision will predominantly be utilised over the next few years.

The contingent consideration provision relates to the acquisition for Spilt Ink Studio Limited during the prior year. Additional consideration will be paid to the former owners of Spilt Ink Studio Limited if the company reaches certain financial and non-financial targets during the years ended 31 August 2011 and 31 August 2012.

19. Deferred tax

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

£m	Accelerated tax depreciation	Property provision	Lease incentives	Share-based payments	Retirement benefit obligations	Short-term timing differences	Total
At 1 September 2010	(6)	–	2	5	–	3	4
Charged to income	–	–	(1)	(1)	–	–	(2)
Charged to equity	–	–	–	(1)	–	–	(1)
At 31 August 2011	(6)	–	1	3	–	3	1
At 1 September 2009	(8)	–	2	5	1	1	1
Charged to income	2	–	–	–	(1)	2	3
At 31 August 2010	(6)	–	2	5	–	3	4

The rate of corporation tax will change from 26 per cent to 25 per cent with effect from 1 April 2012. As 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 a rate of 25 per cent. The change of rate in the year decreased the net deferred tax asset by £nil (2010: £nil).

The UK government has also indicated that it intends to enact future reductions in the UK corporation tax rate of one per cent each year until 1 April 2014 at which date the UK standard rate of corporation tax will be 23 per cent. The future one per cent main rate of corporation tax reductions are expected to have a similar impact on the financial statements as outlined above, however the actual impact will be dependent on the deferred tax position at that time.

Certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances, after offset, for financial reporting purposes.

£m	2011	2010
Deferred tax liabilities (non-current liabilities)	(6)	(6)
Deferred tax assets	7	10
	1	4

20. Analysis of net funds

Movements in net funds can be analysed as follows:

£m	2010	Cash flow	2011
Cash and cash equivalents	56	(15)	41
Debt			
– Obligations under finance leases	–	–	–
Net funds	56	(15)	41

£m	2009	Cash flow	2010
Cash and cash equivalents	47	9	56
Debt			
– Obligations under finance leases	(2)	2	–
Net funds	45	11	56

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

The Group has in place a five-year committed multi-currency revolving credit facility of £70m. The revolving credit facility is due to mature on 24 January 2016. The utilisation is interest-bearing at LIBOR plus 110 basis points. Utilisation at 31 August 2011 was £nil, and the utilisation of the previous facility as at 31 August 2010 was £nil.

21. Contingent liabilities and capital commitments

£m	2011	2010
Bank and other loans guaranteed	3	4

Other potential liabilities that could crystallise are in respect of previous assignments of leases where the liability could revert to the Group if the lessee defaulted. Pursuant to the terms of the Demerger Agreement with Smiths News PLC, any such contingent liability which becomes an actual liability, will be apportioned between the Group and Smiths News PLC in the ratio 65:35 (provided that the actual liability of Smiths News PLC in any 12-month period does not exceed £5m). The Group's 65 per cent share of these leases has an estimated future rental commitment at 31 August 2010 of £30m (2010: £40m). The movement in the future rental commitment is due to the crystallisation of lease liabilities, lease expiries and the effluxion of time.

Contracts placed for future capital expenditure approved by the directors but not provided for in this combined financial information amount to £2m (2010: £nil).

22. Net cash inflow from operating activities

£m	2011	2010
Operating profit from continuing operations	93	89
Depreciation of property, plant and equipment	30	31
Impairment of property, plant and equipment	2	3
Amortisation of intangible assets	6	5
Share-based payments	8	7
Increase in inventories	(3)	–
(Increase)/decrease in receivables	–	(1)
Increase in payables	6	4
Pension funding	(14)	(13)
Income taxes paid	(10)	(20)
Charge to provisions	2	1
Cash spend against provisions	(2)	(2)
Net cash inflow from operating activities	118	104

23. Financial instruments

Categories of financial instruments

	Carrying value	
£m	2011	2010
Financial assets		
Derivative instruments in designated hedge accounting relationships ¹	–	–
Loans and receivables (including cash and cash equivalents) ²	109	138
Financial liabilities		
Finance lease obligations	–	–
Amortised cost ³	(306)	(312)

¹ All derivatives are categorised as Level 2 under the requirements of IFRS 7. The fair value measurements relating to the instruments are derived from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

² Included within loans and receivables are trade and other receivables, current tax assets and cash and cash equivalents.

³ Included within amortised cost are trade and other payables, current tax liabilities, borrowings and other non-current liabilities.

Comparison of carrying values and fair values

There were no material differences between the carrying value of non-derivative financial assets and financial liabilities and their fair values as at the balance sheet date.

Risk management

The Group's Treasury function seeks to reduce exposures to interest rate, foreign exchange and other financial risks, and to ensure liquidity is available to meet the foreseeable needs of the Group and to invest cash assets safely and profitably. The Group does not engage in speculative trading in financial instruments and transacts only in relation to underlying business requirements. The Group's treasury policies and procedures are periodically reviewed and approved by the Group's Audit Committee and are subject to regular Group Internal Audit review.

Capital risk

The Group's objectives with respect to managing capital (defined as net debt/funds plus equity) are to safeguard the Group's ability to continue as a going concern, in order to optimise returns to shareholders and benefits for other stakeholders, through an appropriate balance of debt and equity funding.

In managing the Group's capital levels the Board regularly monitors the level of debt in the business, the working capital requirements, forecast financing and investing cash flows. Based on this analysis, the Board determines the appropriate return to investors while ensuring sufficient capital is retained in the business to meet its strategic objectives. The Board has a progressive dividend policy and expects that, over time, dividends would be broadly covered twice by earnings calculated on a normalised tax basis.

As at 13 October 2011 the Group has in place a £70m committed multi-currency revolving credit facility, carrying certain financial covenants which have been met throughout the period. The covenants, tested half-yearly, are based on fixed charges cover and net borrowings.

Liquidity risk

The Group manages its exposure to liquidity risk by reviewing the cash resources required to meet its business objectives through both short and long-term cash flow forecasts. The Group has a committed facility with a number of financial institutions which are available to be drawn for general corporate purposes including working capital.

Treasury has a policy of pooling Group 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.

23. Financial Instruments (continued)

The table below shows the maturity analysis of the undiscounted remaining contractual cash flows of the Group's financial liabilities:

2011 (£m)	Due within 1 year	Due between 1 and 2 years	Due between 2 and 5 years	Due over 5 years	Total
Non-derivative financial liabilities					
Trade and other payables	283	–	1	–	284
Finance leases	–	–	–	–	–
Total cash flows	283	–	1	–	284

2010 (£m)	Due within 1 year	Due between 1 and 2 years	Due between 2 and 5 years	Due over 5 years	Total
Non-derivative financial liabilities					
Trade and other payables	291	–	1	–	292
Finance leases	–	–	–	–	–
Total cash flows	291	–	1	–	292

Credit risk

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

The Group has credit risk attributable to its trade and other receivables including a number of sale or return contracts with suppliers. The amounts included in the balance sheet are net of allowances for 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 low retail credit risk due to the transactions being principally of a high volume, low value and short maturity. The Group has no significant concentration of credit risk, with the exposure spread over a large number of counterparties and customers.

The credit risk on liquid funds and derivative financial instruments is considered to be low, as the Board approved Group Treasury Policy limits the value that can be placed with each approved counterparty to minimise the risk of loss. These limits are based on a combination of short-term credit ratings of P-1/A-1 and long-term ratings of A1/A+ or better.

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

Interest rate risk

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

At 31 August 2011, the Group had drawn down £nil (2010: £nil) from its committed revolving credit facility. The Group draws down periodically 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. 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 2011, 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 and Australia. The Group does not use derivatives to hedge balance sheet and profit and loss translation exposure.

The fair value of cash flow hedges recognised on the balance sheet within derivative assets/liabilities is shown below:

£m	2011	2010
Fair value of derivative assets	–	–

At 31 August 2011, the total notional amount of outstanding forward foreign exchange contracts to which the Group has committed is US\$47m (2010: US\$29m). These instruments will be used to hedge cash flows occurring within up to two years of the balance sheet date. Gains totalling £nil (2010: £2m) have been transferred to both the income statement and inventories in respect of contracts that matured during the year ended 31 August 2011. In the year to 31 August 2011, the fair value loss on the Group's currency derivatives that are designated and effective as cash flow hedges amounted to £nil (2010: £1m loss).

Sensitivity analysis as at 31 August 2011

Financial instruments affected by market risks include borrowings, deposits and derivative financial instruments.

The following analysis, required by IFRS 7, Financial Instruments: Disclosures, is intended to illustrate the sensitivity to changes in market variables, being UK interest rates, and USD/GBP and EUR/GBP exchange rates.

The following assumptions were made in calculating the sensitivity analysis:

- Exchange rate fluctuations on currency derivatives that form part of an effective cash flow hedge relationship affect the hedging reserve in equity and the fair value of the hedging derivatives.
- Year end exchange rates applied in the analysis are USD/GBP 1.635/1 (2010: 1.551/1) and EUR/GBP 1.130/1 (2010: 1.222/1).
- Group debt and hedging activities remain constant, reflecting the positions at 31 August 2010 and 31 August 2011 respectively. As a consequence, the analysis relates to the position at those dates and is not necessarily representative of the years then ended.

The above assumptions are made when illustrating the effect on the Group's income statement and equity given reasonable movements in foreign exchange and interest rates before the effect of tax. The Group considers a reasonable interest rate movement in GBP LIBOR/Base rate to be one per cent, based on interest rate history. Similarly, sensitivity to movements in USD/GBP and EUR/GBP exchange rates of ten per cent are shown, reflecting changes of reasonable proportion in the context of movement in those currency pairs over time.

Using these assumptions, the following table shows the illustrative effect on the Group Income Statement and equity.

£m	2011		2010	
	Income gains/(loss)	Equity gains/(loss)	Income gains/(loss)	Equity gains/(loss)
GBP LIBOR/Base rate interest rates 1% increase	–	–	1	–
USD/GBP exchange rates 10% increase	–	(3)	–	(2)
EUR/GBP exchange rates 10% increase	–	–	–	–
GBP LIBOR/Base rate interest rates 1% decrease	–	–	(1)	–
USD/GBP exchange rates 10% decrease	–	3	–	2
EUR/GBP exchange rates 10% decrease	–	–	–	–

24. Called up share capital

Allotted and fully paid

	2011		2010	
	Number of shares (millions)	Nominal value £m	Number of shares (millions)	Nominal value £m
Equity:				
Ordinary shares of 22 $\frac{1}{2}$ p	139	31	151	33
Total	139	31	151	33

During the year the Company repurchased 11,509,145 of its own shares in the open market for an aggregate consideration of £55m. Since the balance sheet date, the Company has repurchased a further 297,000 of its own shares in the open market for an aggregate consideration of £2m.

During the year 163,515 ordinary shares were allotted under the terms of the Company's Sharesave Scheme. The effect of this allotment was to increase share premium by £1m to £2m (2010: £1m).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the meetings of the Company.

25. Share-based payments

Summary of movements in awards and options

Number of shares	Sharesave Schemes	Executive Share Option Schemes	2010 MIP	2008 MIP	LTIPs	Total	Weighted average exercise price (pence)
Outstanding at 1 September 2010	1,093,816	3,937,862	–	3,922,603	1,655,732	10,610,013	135.54
Options and awards granted	–	1,128,344	3,178,075	–	729,984	5,036,403	107.13
Options and awards exercised	(163,515)	(1,174,278)	–	(3,791,059)	(205,336)	(5,334,188)	91.66
Options and awards lapsed	(83,010)	(261,672)	(232,413)	(131,544)	(65,969)	(774,608)	183.58
Outstanding at 31 August 2011	847,291	3,630,256	2,945,662	–	2,114,411	9,537,620	193.14
Exercisable at 31 August 2011	45,281	363,478	–	–	–	408,759	336.57
Outstanding at 1 September 2009	1,313,176	4,150,906	–	3,922,603	1,775,827	11,162,512	168.06
Options and awards granted	369,188	1,004,496	–	–	606,761	1,980,445	326.91
Options and awards exercised	(510,509)	(1,105,382)	–	–	(726,856)	(2,342,747)	223.04
Options and awards lapsed	(78,039)	(112,158)	–	–	–	(190,197)	350.41
Outstanding at 31 August 2010	1,093,816	3,937,862	–	3,922,603	1,655,732	10,610,013	135.54
Exercisable at 31 August 2010	1,280	386,170	–	–	–	387,450	299.46

Detail of movements in options and awards

2010 Management Investment Plan (2010 MIP)

Under the terms of the 2010 Management 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 if underlying performance targets are met.

Outstanding awards granted under the 2010 MIP are as follows:

Date of grant	2011	2010	Exercise price (pence)	Exercise period
21 October 2010	2,887,696	–	Nil	Nov 2013 – Nov 2015
17 November 2010	40,323	–	Nil	Nov 2013 – Nov 2015
1 February 2011	17,643	–	Nil	Nov 2013 – Nov 2015
	2,945,662	–		

2008 Management Investment Plan (2008 MIP)

Under the terms of the 2008 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 they had invested.

Date of grant	2011	2010	Exercise price (pence)	Exercise period
22 November 2007	–	3,524,906	Nil	Nov 2010 – Nov 2012
29 February 2008	–	19,455	Nil	Nov 2010 – Nov 2012
21 October 2008	–	378,242	Nil	Nov 2010 – Nov 2012
	–	3,922,603		

LTIPs

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.

Outstanding awards granted under the LTIPs are as follows:

Date of grant	Number of shares		Exercise price (pence)	Exercise period
	2011	2010		
17 October 2007	–	205,336	Nil	Oct 2010 – 17.10.17
21 October 2008	843,635	843,635	Nil	Oct 2011 – 21.10.18
5 November 2009	591,682	606,761	Nil	Nov 2012 – 05.11.19
21 October 2010	668,219	–	Nil	Oct 2013 – 21.10.20
17 November 2010	10,875	–	Nil	Nov 2013 – 17.11.20
	2,114,411	1,655,732		

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.

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.

Outstanding options granted under the Sharesave Scheme at 31 August 2011 are as follows:

Date of grant	Number of shares		Exercise price (pence)	Exercise period
	2011	2010		
29 November 2006 (3 year)	–	1,280	295.20	01.02.10 – 31.07.10
29 November 2006 (5 year)	160,138	164,128	295.20	01.02.12 – 31.07.12
4 June 2008 (3 year)	45,281	222,965	335.60	01.08.11 – 31.01.12
4 June 2008 (5 year)	106,979	109,049	335.60	01.08.13 – 31.01.14
3 June 2009 (3 year)	153,031	171,871	387.00	01.08.12 – 31.01.13
3 June 2009 (5 year)	52,041	56,745	387.00	01.08.14 – 31.01.15
2 June 2010 (3 year)	267,088	297,202	400.40	01.08.13 – 31.01.14
2 June 2010 (5 year)	62,733	70,576	400.40	01.08.15 – 31.01.16
	847,291	1,093,816		

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. Further details are set out in the Remuneration report.

Outstanding options granted under the Executive Share Option Schemes as at 31 August 2011 are as follows:

Date of grant	Number of shares		Exercise price (pence)	Exercise period
	2011	2010		
1 May 2001	–	6,288	357.00	01.05.04 – 30.04.11
1 November 2001	–	18,106	318.00	01.11.04 – 31.10.11
5 November 2002	380	380	263.00	05.11.05 – 04.11.12
20 November 2003	19,782	19,782	250.00	20.11.06 – 19.11.13
3 November 2004	77,381	92,822	247.00	03.11.07 – 02.11.14
2 November 2005	17,373	66,610	268.00	02.11.08 – 01.11.15
20 April 2006	6,299	6,299	321.00	20.04.09 – 19.04.16
19 October 2006	18,536	175,883	340.00	19.10.09 – 18.10.16
17 October 2007	223,727	1,166,681	381.00	17.10.10 – 16.10.17
22 April 2008	–	20,852	387.25	22.04.11 – 21.04.18
21 October 2008	1,297,996	1,370,065	347.00	21.10.11 – 20.10.18
5 November 2009	942,940	994,094	497.37	05.11.12 – 04.11.19
21 October 2010	1,025,842	–	478.20	21.10.13 – 20.10.20
	3,630,256	3,937,862		

Fair value information

£m	2011	2010
Weighted average share price at date of exercise of share options exercised during period – pence	475.50	504.29
Weighted average remaining contractual life at end of period – years	6	5

Share options and awards granted

The aggregate of the estimated fair value of the options and awards granted each period is:

£m	2011	2010
	17	4

25. Share-based payments (continued)

The share options granted during each period have been valued using a Black-Scholes model. The inputs to the Black-Scholes model are as follows:

	2011	2010
Share price – pence	482	444 – 507
Exercise price – pence	478	400 – 497
Expected volatility – per cent	35.18	32.72 – 35.79
Expected life – years	5	3.5 – 5.5
Risk free rate – per cent	1.70	1.76 – 2.92
Dividend yield – per cent	4.03	3.3 – 3.76
Weighted average fair value of options – pence	106.00	126.32

Expected volatility was determined by calculating the historical volatility of the Group's share price over the expected life of the option.

The fair values of the MIP and LTIP awards granted were measured using a Monte Carlo simulation model. The input range into the Monte Carlo models was as follows:

	2011	2010
Share price – pence	465.00 – 481.90	506.50
Exercise price – pence	Nil	Nil
Expected volatility – per cent	30.7 – 32.1	34.0
Expected life – years	3.0	3.0
Risk free rate – per cent	0.84 – 1.14	1.90
Dividend yield – per cent	4.03 – 4.17	3.30
Weighted average fair value of options – pence	396.82	405.46

Expected volatility was determined by calculating the historical volatility of the Group's share price over the expected life of the option.

26. Related party transactions

Transactions between businesses within this Group which are related parties have been eliminated on consolidation and are not disclosed in this note.

Remuneration of key management personnel

The remuneration of the executive directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24, Related Party Disclosures.

Further information about the remuneration of individual directors is provided in the Directors' Remuneration report.

£'000	2011	2010
Short-term employee benefits	2,344	1,906
Post-employment benefits	175	258
Share-based payments	2,953	2,800
	5,472	4,964

There are no other transactions with directors.

27. Principal companies

The principal companies included within the financial statements, which are all wholly owned, are disclosed below. A schedule of interests in all subsidiary undertakings is filed with the Annual Return.

Name	Country of incorporation/registration
WH Smith PLC	England and Wales
WH Smith Retail Holdings Limited	England and Wales
WH Smith High Street Holdings Limited	England and Wales
WH Smith Travel Holdings Limited	England and Wales
WH Smith High Street Limited	England and Wales
WH Smith Travel Limited	England and Wales
WH Smith Hospitals Holdings Limited (formerly UNS Group Limited)	England and Wales
WH Smith Hospitals Limited (formerly UNS Hospitals Limited)	England and Wales
WH Smith France S.A.S	France
WH Smith Ireland Limited	Ireland
WH Smith Jersey Limited	Jersey
WH Smith Asia Limited	Hong Kong

The Company has taken advantage of the exemption under Section 410 of the Companies Act 2006 by providing information only in relation to subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affected the financial statements.

Independent auditors' report

to the members of WH Smith PLC

We have audited the parent company financial statements of WH Smith PLC for the year ended 31 August 2011 which comprise the Company Balance Sheet and the related Notes 1 to 9. 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 auditors' 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 auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the parent company 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 parent company 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 (APB'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 parent 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. 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 parent company financial statements:

- give a true and fair view of the state of the parent company's affairs as at 31 August 2011;
- 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 matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the parent company 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration report to be audited 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.

Other matters

We have reported separately on the Group financial statements of WH Smith PLC for the year ended 31 August 2011.

**Stephen Griggs (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor**

London, United Kingdom

13 October 2011

Company balance sheet

As at 31 August 2011

£m	Note	2011	2010
Fixed assets			
Investments	3	357	357
Total fixed assets		357	357
Current assets			
Debtors – amounts due within one year	4	99	–
Current liabilities			
Bank overdraft		(4)	–
Creditors – amounts due within one year	5	(129)	(211)
		(133)	(211)
Net current liabilities		(34)	(211)
Total net assets		323	146
Capital and reserves			
Called up share capital	8	31	33
Share premium	9	2	1
Capital redemption reserve	9	6	4
Profit and loss account	9	284	108
Total equity		323	146

The financial statements of WH Smith PLC, registered number 5202036, were approved by the Board of Directors on 13 October 2011.

Kate Swann
Group Chief Executive

Robert Moorhead
Group Finance Director

Notes to the Company balance sheet

1. Accounting policies

a) Basis of preparation

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

b) Investment in subsidiary undertakings

Investment in equity and long-term loans in subsidiary undertakings are individually valued at historical cost less provision for impairment in value.

c) Taxation

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

d) Cash flow statement

The Company is exempt from the requirement of FRS 1 (revised) to include a cash flow statement as part of its Company financial statements because it prepares a consolidated cash flow statement.

e) Related parties

The Company has taken advantage of paragraph 3 (c) of Financial Reporting Standard 8 'Related Party Disclosures' not to disclose transactions with Group entities or interests of the Group qualifying as related parties.

2. Profit for the year

The Company has not presented its own profit and loss account as permitted by Section 408 of the Companies Act 2006.

The profit for the year attributable to shareholders, which is stated on an historical cost basis, was £260m (2010: £nil) comprising investment income relating to dividends received from Group companies. There were no other recognised gains or losses.

3. Investments in subsidiary undertakings

The Company acquired the shares of WH Smith Retail Holdings Limited at a fair value of £357m on 31 August 2006.

4. Debtors – amounts due within one year

£m	2011	2010
Amounts owed by subsidiary undertakings	99	–
	99	–

5. Creditors – amounts due within one year

£m	2011	2010
Amounts owed to subsidiary undertakings	129	211
	129	211

6. Dividends

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

£m	2011	2010
Dividends		
Interim dividend of 7.2p per ordinary share (2010: 6.1p per ordinary share)	10	9
Final dividend of 13.3p per ordinary share (2010: 11.3p per ordinary share)	19	17
	29	26

The proposed dividend of 15.3p per share, amounting to a final dividend of £20m, is not included as a liability in these financial statements and, subject to shareholder approval, will be paid on 2 February 2012 to shareholders on the register at the close of business on 6 January 2012.

7. Contingent liabilities

Contingent liabilities of £2m (2010: £2m) are in relation to insurance standby letters of credit.

8. Called up share capital

Allotted and fully paid

	2011		2010	
	Number of shares (millions)	Nominal value £m	Number of shares (millions)	Nominal value £m
Equity:				
Ordinary shares of 22½p	139	31	151	33
Total	139	31	151	33

During the year the Company repurchased 11,509,145 of its own shares in the open market for an aggregate consideration of £55m. Since the balance sheet date, the Company has repurchased a further 297,000 of its own shares in the open market for an aggregate consideration of £2m.

Also during the year 163,515 ordinary shares were allotted under the terms of the Company's Sharesave Scheme. The effect of this allotment was to increase share premium by £1m to £2m (2010: £1m).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the meetings of the Company.

9. Reserves

£m	Share capital	Share premium	Capital redemption reserve	Profit and loss account	Total
Balance at 1 September 2010	33	1	4	108	146
Profit for the financial year	–	–	–	260	260
Purchase of own shares for cancellation	(2)	–	2	(55)	(55)
Premium on issue of shares	–	1	–	–	1
Equity dividends paid during the period	–	–	–	(29)	(29)
Balance at 31 August 2011	31	2	6	284	323

Five year financial summary – unaudited

Group Income Statement

£m	31 August 2011	31 August 2010	31 August 2009	31 August 2008	31 August 2007
Continuing operations					
Revenue	1,273	1,312	1,340	1,352	1,299
Group operating profit before exceptional items	93	89	83	74	67
Exceptional operating items	–	–	–	–	10
Group operating profit	93	89	83	74	77
Net finance (charges)/income	–	–	(1)	2	(1)
Profit before tax	93	89	82	76	76
Income tax expense	(20)	(20)	(18)	(17)	(16)
Profit after tax from continuing operations	73	69	64	59	60
Loss from discontinued operations	–	–	(1)	–	–
Profit for the period	73	69	63	59	60
Underlying earnings per share					
Basic	52.1p	47.6p	42.7p	36.4p	30.3p
Diluted	51.4p	45.7p	41.3p	35.3p	29.3p
Earnings per share					
Basic – continuing operations	52.1p	47.6p	42.7p	36.4p	34.3p
Basic	52.1p	47.6p	42.0p	36.4p	34.3p
Diluted	51.4p	45.7p	40.6p	35.3p	33.1p
Tax rate¹ – continuing operations	21%	23%	22%	23%	20%

¹ Before exceptional items.

Segmental analysis of Group revenue

£m	31 August 2011	31 August 2010	31 August 2009	31 August 2008	31 August 2007
Travel	455	452	448	413	338
High Street	818	860	892	939	961
Group revenue	1,273	1,312	1,340	1,352	1,299

Segmental analysis of Group operating profit

£m	31 August 2011	31 August 2010	31 August 2009	31 August 2008	31 August 2007
Continuing operations:					
Travel	57	53	48	41	36
High Street	52	51	49	47	44
Trading profit	109	104	97	88	80
Unallocated costs	(16)	(15)	(14)	(14)	(13)
Group operating profit before exceptional items	93	89	83	74	67
Exceptional items	–	–	–	–	10
Group operating profit	93	89	83	74	77

Group Balance Sheet

£m	31 August 2011	31 August 2010	31 August 2009	31 August 2008	31 August 2007
Non-current assets					
Goodwill and other intangible assets	56	56	56	55	35
Property, plant and equipment	151	158	163	177	176
Deferred tax assets	7	10	9	11	15
Trade and other receivables	4	4	4	4	5
Total non-current assets	218	228	232	247	231
Current assets	259	285	262	241	286
Total assets	477	513	494	488	517
Current liabilities	(294)	(300)	(281)	(303)	(261)
Non-current liabilities					
Retirement benefit obligation	–	(1)	(2)	–	–
Other non-current liabilities	(27)	(26)	(23)	(24)	(29)
Total liabilities	(321)	(327)	(306)	(327)	(290)
Total net assets	156	186	188	161	227

Group Cash Flow Statement

£m	31 August 2011	31 August 2010	31 August 2009	31 August 2008	31 August 2007
	12 months to				
Cash flow from operating activities					
Generated from operating activities	128	124	130	111	78
Taxation (paid)/received	(10)	(20)	(17)	(7)	5
Cash flow from operating activities	118	104	113	104	83
Investing activities					
Interest received	–	1	1	4	5
Acquisitions and disposals of subsidiaries	(1)	–	–	(24)	(3)
Disposal of property, plant and equipment	5	–	–	3	2
Capital expenditure	(41)	(29)	(28)	(39)	(32)
Net cash from investing activities	(37)	(28)	(27)	(56)	(28)
Financing activities					
Interest paid	–	–	(1)	(1)	(2)
Dividend paid	(29)	(26)	(23)	(78)	(17)
Net purchase of own shares for employee share schemes	(12)	(4)	(8)	(9)	(12)
Repurchase of own shares	(55)	(35)	–	(33)	–
(Decrease)/increase in debt	–	(2)	(29)	13	(7)
Derivative cash movements	–	–	–	–	(1)
Other financing	–	–	–	–	–
Net cash used in financing activities	(96)	(67)	(61)	(108)	(39)
Net increase/(decrease) in cash and cash equivalents – continuing operations	(15)	9	25	(60)	19
Net (decrease)/increase in cash and cash equivalents – discontinued operations	–	–	–	–	(3)
Net increase/(decrease) in cash and cash equivalents	(15)	9	25	(60)	16

Group Cash Flow Statement (continued)

Analysis of net funds movement

£m	12 months to				
	31 August 2011	31 August 2010	31 August 2009	31 August 2008	31 August 2007
Operating profit before exceptional items	93	89	83	74	67
Share-based payments	8	7	6	6	6
Profit on disposal of property, plant and equipment	–	–	–	–	(2)
Depreciation, amortisation and other amounts written off fixed assets	38	39	41	42	41
Movement in working capital	3	3	11	2	9
Net interest receivable/(payable) ¹	–	1	–	2	2
Capital expenditure	(41)	(29)	(28)	(39)	(32)
Sale and leaseback and disposal of fixed asset proceeds	5	–	–	3	2
Net tax paid	(10)	(20)	(17)	(6)	6
Provisions	–	(1)	(1)	(3)	(2)
Free cash flow (before dividends and investment activity)	96	89	95	81	97
Dividends	(29)	(26)	(23)	(78)	(17)
Pension funding	(14)	(13)	(10)	(10)	(35)
Premium on issue of shares	1	1	–	–	–
Net disposals proceeds of subsidiaries	–	–	–	–	(3)
Acquisitions	(1)	–	–	(24)	–
Net purchase of own shares for employee share schemes	(13)	(5)	(8)	(9)	(12)
Repurchase of own shares	(55)	(35)	–	(33)	–
Cash outflow relating to exceptional operating items	–	–	–	–	(6)
Bank fees and derivative cash movements	–	–	–	–	(1)
Net finance lease movements	–	–	–	–	(1)
Net funds movement	(15)	11	54	(73)	22
Opening net funds/(debt)	56	45	(9)	64	42
Closing net funds/(debt)	41	56	45	(9)	64

¹ 2008 and 2007 figures exclude £1m of interest received on prior-period tax overpayments.

Information for shareholders

Company Secretary and Registered Office

Ian Houghton, WH Smith PLC, Greenbridge Road, Swindon, Wiltshire SN3 3RX. Telephone 01793 616161.

WH Smith PLC is registered in England and Wales (Number 5202036).

Company website

This Annual Report and Accounts together with other information, including the price of the Company's shares, Stock Exchange Announcements and frequently asked questions, can be found on the WH Smith PLC website at www.whsmithplc.co.uk.

Annual General Meeting

The Annual General Meeting will be held at JPMorgan Cazenove, 20 Moorgate, London EC2R 6DA on Wednesday 25 January 2012 at 11.30am. The Notice of Annual General Meeting sets out the business to be transacted. Shareholders who wish to attend the meeting should detach the Attendance Card from the Form of Proxy and present it at the registrars' desk on arrival. Shareholders who previously elected to receive communications electronically can print an admission card at www.eproxyappointment.com. You will be asked to enter the Control Number, Shareholder Reference Number ('SRN') and PIN as detailed in your email notification.

Form of Proxy

Ordinary shareholders unable to attend the Annual General Meeting should complete a Form of Proxy. To be effective it must be completed and lodged with the Company's registrars, Computershare Investor Services PLC, by not later than 11.30am on Monday 23 January 2012, or 48 hours before any adjourned meeting.

Electronic proxy voting

You may if you wish register the appointment of a proxy for the meeting electronically, by logging onto the website www.eproxyappointment.com. Full details of the procedure are given on the website. You will be asked to enter the Control Number, SRN and PIN as printed on your Form of Proxy or detailed in your email notification and agree to certain terms and conditions. Electronic proxy voting instructions must be received no later than 11.30am on Monday 23 January 2012, or 48 hours before any adjourned meeting.

CREST electronic proxy voting

To appoint one or more proxies or to give an instruction to a proxy (whether previously appointed or otherwise) via the CREST system, CREST messages must be received by the issuer's agent (ID number 3RA50) not later than 48 hours before the time appointed for holding the meeting, or any adjourned meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp generated by the CREST system) from which the issuer's agent is able to retrieve the message. The Company may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Shareholder enquiries – the registrars

All enquiries relating to shareholdings should be addressed to the registrars as follows:

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
BS99 6ZZ

Website: www.investorcentre.co.uk
Shareholder Helpline: 0871 495 0100*

A textphone facility for shareholders with hearing difficulties is available by telephoning 0870 702 0005.

*Calls to this number are charged at 8p per minute from a BT landline. Other telephony providers' costs may vary.

Investor Centre

Investor Centre is a free, secure share management website provided by Computershare. This service allows you to view your share portfolio and see the latest market price of your shares, check your dividend payment and tax information, change your address, update payment instructions and receive your shareholder communications online. To take advantage of this service, please login at www.investorcentre.co.uk and enter your SRN and Company Code, WHS. This information can be found on your Form of Proxy, email notification of availability of AGM documents or dividend tax voucher.

Dividend Mandates

If you wish dividends to be paid directly into your bank account through the BACSTEL-IP (Bankers' Automated Clearing Services) system, you should contact Computershare for a Dividend Mandate Form or apply online at www.investorcentre.co.uk.

Computershare Global Payment Service

In conjunction with Computershare, the Company is offering a payment service to international shareholders wishing to receive their dividend direct into their local bank account.

The service will automatically convert dividend proceeds into your local currency and remit the funds electronically to your foreign bank account. In order to subscribe to the service, you will need to log onto www.investorcentre.co.uk/payments and enter your bank details. You will need to have your SRN and bank account details in order to complete the application process.

Financial calendar

The following dates are given for information purposes only. Please check the WH Smith PLC website at www.whsmithplc.co.uk nearer the relevant time for full details, and to ensure that no changes have been made.

Financial year end	31 August 2011
Results announced	13 October 2011
Interim Management Statement	November 2011
Annual Report posted	December 2011
Final dividend ex-dividend date	4 January 2012
Final dividend record date	6 January 2012
Christmas trading statement	January 2012
AGM	25 January 2012
Final dividend payment date	2 February 2012
Half-year end	29 February 2012
Interim results announced	April 2012
Interim dividend ex-dividend date	May 2012
Interim dividend record date	May 2012
Interim dividend payment date	June 2012
Interim Management Statement	July 2012
Financial year end	31 August 2012

The dividend dates shown above are in respect of the Company's ordinary shares of 22⁶/₇p.

Sharedealing services

The Company is offering internet and telephone share dealing services for shareholders (in certain jurisdictions) in conjunction with Computershare. For internet dealing, log onto www.computershare.com/dealing/uk and for telephone dealing call 0870 703 0084. You will need to have your SRN to hand when making this call. This can be found on your Form of Proxy, email notification of availability of AGM documents or dividend tax voucher.

ShareGIFT

If you only have a small number of shares which are uneconomic to sell, you may wish to consider donating them to charity under ShareGIFT, a charity share donation scheme administered by the Orr Mackintosh Foundation. A ShareGIFT transfer form may be obtained from our registrar. Further information about the scheme can be found on the ShareGIFT website at www.sharegift.org.

Warning to Shareholders – Boiler Room Scams

In recent years, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. These operations are commonly known as 'boiler rooms'. These 'brokers' can be very persistent and extremely persuasive, and a 2006 survey by the Financial Services Authority (FSA) has reported that the average amount lost by investors is around £20,000.

It is not just the novice investor that has been duped in this way; many of the victims had been successfully investing for several years. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports. If you receive any unsolicited investment advice:

- Make sure you get the correct name of the person and organisation.
- Check that they are properly authorised by the FSA before getting involved by visiting www.fsa.gov.uk/register/home.do.
- Report the matter to the FSA either by calling 0845 606 1234 or visiting www.moneymadeclear.fsa.gov.uk.
- If the calls persist, hang up.

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme. The FSA can be contacted by completing an online form at www.fsa.gov.uk/pages/doing/regulated/law/alerts/overseas.shtml.

Details of any share dealing facilities that the Company endorses will be included in Company mailings.

More detailed information can be found on the website www.moneymadeclear.fsa.gov.uk.

UK Capital Gains Tax

Demerger 31 August 2006

Following the demerger of the Company on 31 August 2006, in order to calculate any chargeable gains or losses arising on the disposal of shares after 31 August 2006, the original tax base cost of your ordinary shares of 2¹³/₈₁p (adjusted if you held your shares on 24 September 2004 and 22 May 1998 to take into account the capital reorganisations of 27 September 2004 and 26 May 1998 respectively (see below)) will have to be apportioned between the shareholdings of ordinary shares of 20p in the Company and ordinary shares of 5p in Smiths News.

The cost of your shareholding of ordinary shares of 20p in the Company is calculated by multiplying the original base cost of your ordinary shares of 2¹³/₈₁p (adjusted where necessary to take into account the capital reorganisations of 24 September 2004 and 26 May 1998 (see below)) by 0.69585.

The cost of your shareholding of ordinary shares of 5p is calculated by multiplying the original base cost of your ordinary shares of 2¹³/₈₁p (adjusted where necessary to take into account the capital reorganisations of 24 September 2004 and 26 May 1998 (see below)) by 0.30415.

As a result of the share consolidation on 22 February 2008, the nominal value of the Company's ordinary shares increased from 20p per ordinary share to 22⁶/₈₇p per ordinary share.

Capital reorganisation 27 September 2004

If you acquired your shareholding on or before 24 September 2004, in order to calculate any chargeable gains or losses arising on the disposal of shares after 24 September, the original tax base cost of your ordinary shares of 55⁵/₉p (adjusted if you held your shares on 22 May 1998 to take into account the capital reorganisation of 26 May 1998 (see below)) will have to be apportioned between the shareholdings of ordinary shares of 2¹³/₈₁p and 'C' shares resulting from the capital reorganisation.

The cost of your shareholding of ordinary shares of 2¹³/₈₁p is calculated by multiplying the original base cost of your ordinary shares of 55⁵/₉p (adjusted where necessary to take into account the capital reorganisation of 26 May 1998 (see below)) by 0.73979.

Capital reorganisation 26 May 1998

If you acquired your shareholding on or before 22 May 1998, in order to calculate any chargeable gains or losses arising on the disposal of shares after 22 May 1998, the original tax base cost of your ordinary shares of 50p will have to be apportioned between the shareholdings of ordinary shares of 55⁵/₉p and redeemable 'B' shares resulting from the capital reorganisation.

The cost of your shareholding of ordinary shares of 55⁵/₉p is calculated by multiplying the original cost of your ordinary shares of 50p by 0.90714.

March 1982 values

If you acquired your shareholding on or before 31 March 1982, in order to calculate any chargeable gains or losses arising on disposal of shares, the tax base cost of your ordinary shares used the 31 March 1982 base values per share as follows:

	Arising from an original shareholding of	
	'A' ordinary shares	'B' ordinary shares
Ordinary shares of 20p	61.62p	50.92p
Smiths News PLC ordinary shares of 5p	26.93p	22.25p

If you have a complicated tax position, or are otherwise in doubt about your tax circumstances, or if you are subject to tax in a jurisdiction other than the United Kingdom, you should consult your professional adviser.

'Company' means WH Smith PLC, a public limited company incorporated in England and Wales with registered number 5202036; and 'Group' means the Company and its subsidiaries and subsidiary undertakings.



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