





2009 HIGHLIGHTS
TRAVEL

£448m

Sales (2008: £413m)

£48m

Profit¹ (2008: £41m)

- 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 improve our customer offer and grow the business by renewing existing contracts and developing new formats and channels.
- During the year, Travel continued its strong profit¹ performance, despite softer passenger numbers in airports, demonstrating the strength of the business model even in tough trading conditions.
- The business operates from 490 units (2008: 449 units) in airports, railway stations, motorway service areas, hospitals, workplaces and bus stations. Nine units are in non-UK locations.
- Units range from 90 square feet to more than 6,000 square feet, with a total of 0.4m square feet of selling space, excluding motorway service areas, as of 31 August 2009 (2008: 0.4m square feet).



HIGH STREET

£892m

Sales (2008: £939m)

£49m

Profit¹ (2008: £47m)



- High Street sells a wide range of Books, Stationery, Newspapers, Magazines and Impulse products, as well as a range of Entertainment products.
- Our objective is to be Britain's most popular stationer, bookseller and newsagent.
- During the year, High Street performed well and continued to implement its strategy to focus on its core categories, optimising margins and controlling costs.
- The business increased profits¹ and remains strongly cash generative.
- We have a total of 565 High Street stores (2008: 557 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 3.0m square feet of selling space as of 31 August 2009 (2008: 3.0m square feet).

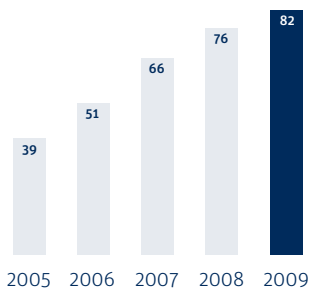


¹ Profit from trading operations is stated after directly attributable share-based payment and pension service charges and before allocation of central costs, exceptional items, interest and taxation.

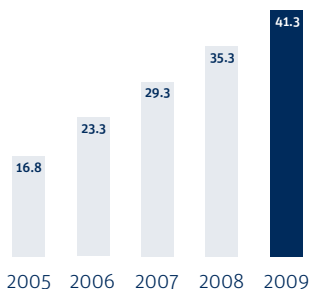
ABOUT US

- 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, workplaces and bus stations, primarily in the UK.
- WHSmith Direct – www.whsmith.co.uk – serves customers online 24 hours a day.
- Overall, WHSmith employs more than 17,000 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.

CONTENTS

- 1 Group at a glance
- 2 Chairman's statement
- 4 Directors' report and business review
 - Principal activities
 - Business objectives and strategies
 - Chief Executive's review
 - Key performance indicators
 - Risks and uncertainties
 - Employees
 - Social and environmental matters
 - Corporate governance, AGM and other matters
- 24 Statement of directors' responsibilities
- 25 Board of Directors
- 26 Remuneration report
- 35 Independent auditors' report to the members of WH Smith PLC
- 36 Group income statement
- 37 Group balance sheet
- 38 Group cash flow statement
- 39 Group statement of recognised income and expense
- 39 Group reconciliation of movements in equity
- 40 Notes to accounts
- 67 Independent auditors' report to the members of WH Smith PLC
- 68 Company balance sheet
- 69 Notes to the Company balance sheet
- 71 Five year financial summary
- 74 Information for shareholders

This year the Group has continued to deliver good performance in the face of challenging economic conditions.

This year, the Group has continued to deliver good performance in the face of challenging economic conditions. This performance demonstrates our relative resilience in a tough trading environment and reflects the consistent and focused execution of our goal to grow our Travel business and to build on High Street's position as Britain's most popular stationer, bookseller and newsagent.

The Group continues to have a strong balance sheet and remains highly cash generative. Profitability and cash generation remain priorities in both the Travel and High Street businesses and I am pleased to report another year of good performance in both these areas across the Group. Group profit before tax and exceptional items was eight per cent ahead of last year at £82m. Total revenue for the Group was down one per cent at £1.34 billion, with like-for-like (LFL) sales down five per cent, and strong free cash flow¹ of £89m. This performance led the Board to recommend a final dividend of 11.3p and to announce, on 15 October 2009, our intention to return up to £35m of cash to shareholders via a rolling share buyback programme.

The Travel business has achieved further profit² growth despite softer passenger numbers, demonstrating the strength of the division's business model. Following Travel's significant expansion during 2008, notably through the acquisitions of UNS Group Limited (UNS) and units from Alpha Retail UK Limited (Alpha), 2009 has been a year of further growth with 51 units opening as well as the completion of the integration of the UNS business and Alpha units. Travel achieved total sales growth of eight per cent and profit² growth of 17 per cent.

In our High Street business, we continue to make progress with the execution of our strategy to build our authority in our core categories. We have seen further improvements during the year to increase margins and to control costs, with costs being a particular focus in light of the tough economic climate. High Street continues to be strongly cash generative and delivered profits² up by four per cent, despite sales falling in a difficult market.

In this trading environment, we depend more than ever on the commitment of our management team, our staff and our suppliers. We could not have achieved these results without their support. My particular thanks go to our staff in all areas of the Group, who have worked hard to deliver this set of results.

The Group's commitment to corporate responsibility (CR) remains just as relevant in difficult economic times, with the CR programme contributing to our risk management and overall business efficiency. I am pleased to report that we have continued to make progress with our CR objectives, whether improving environmental efficiency by reducing energy consumption and waste, improving the forestry standards of our own-brand timber and paper products or maintaining our support for literacy projects. Our efforts continue to be recognised in the Business in the Community CR Index, where we are proud to have been awarded the highest ranking, Platinum, for the second year running.

Whilst we do not anticipate any significant changes to the economic environment in the short-term, we do believe that the Group goes into the year ahead well-positioned and we remain focused on the continued successful execution of our strategic plans.

Robert Walker
Chairman, WH Smith PLC
15 October 2009

The Group goes into the year ahead well-positioned and we remain focused on the continued successful execution of our strategic plans.

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

² Profit from trading operations is stated after directly attributable share-based payment and pension service charges and before central costs, exceptional items, interest and taxation.

The directors of WH Smith PLC (the "Company") present their Annual Report to shareholders together with the audited consolidated accounts of the Company and its subsidiaries for the year ended 31 August 2009. The purpose of the Annual Report is to provide information to members of the Company. The Annual Report contains certain forward looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results to differ from those anticipated. Nothing in this Annual Report should be construed as a profit forecast.

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

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 in airports, train stations, motorway service areas, hospitals, workplaces and bus stations; and High Street sells a wide range of Books, Stationery, Newspapers, Magazines and a convenience offer 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 490 Travel units (including franchise units) and 565 High Street stores, with leading positions in Books, Magazines and Stationery. Overall, WHSmith employs more than 17,000 staff, primarily in the UK.

WHSmith also reaches customers via WHSmith Direct – www.whsmith.co.uk – serving customers on the internet 24 hours a day.

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 strongly performing Travel business and delivering its High Street plan.

We aim to improve the Company's profitability¹ and cash flow generation, delivering sustainable returns to shareholders. We believe that a focus 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 remains unchanged and concentrates on building authority in core categories, optimising margins, controlling costs and ensuring we deliver the retail basics. High Street has made 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 15 and 16 of this report.

CHIEF EXECUTIVE'S REVIEW

The Group delivered another strong profit¹ performance during the year, in what have been challenging trading conditions in both High Street and Travel. Our profit performance demonstrates the Group's relative resilience in this climate: in High Street our average transaction value is low and in Travel our turnover-related rental contracts give us a natural profit shield.

The ordinary dividend increase of 17 per cent on the prior year, together with the announced return of cash to shareholders, reflects the cash generative nature of the Group and the Board's confidence in its future prospects.

The Group continues to have a strong balance sheet and remains highly cash generative. At the year end we had net funds of £45m. Going forward, the cash generative nature of the Group will be a key driver of value for shareholders.

The operating performance in each of the two businesses was driven by strong cost control, increased gross margins and taking sales opportunities when they arose. During the year, both businesses made good progress driving their distinct strategies.

As a Group we are well-positioned for the recovery. The defensive nature of the High Street business means our position is stable in tougher times, however, in Travel we would expect to benefit, particularly in Air, when the economy improves and passenger numbers return to growth.

Group summary

The Group generated a profit before tax and exceptional items of £82m (2008: £76m), an increase of eight per cent on the prior year. Profit from trading operations increased to £97m, up ten per cent on the prior year.

Travel continued its strong performance, with profit¹ increasing by 17 per cent to £48m, and good sales and margin growth, achieved despite softer passenger numbers, demonstrating the strength of the Travel business model.

High Street profit¹ was £49m, up four per cent on the prior year. We are continuing with our strategy to rebalance the mix of our business towards our core categories, reducing our presence in Entertainment, and to optimise margins and maintain tight cost control.

Total Group sales were down one per cent to £1,340m (2008: £1,352m) with like for like (LFL) sales down five per cent. Travel sales grew by eight per cent to £448m, down two per cent on a LFL basis. High Street sales were down five per cent at £892m and down six per cent on a LFL basis.

Underlying earnings per share² increased by 17% to 41.3p (2008: 35.3p), with earnings per share (including exceptional items)³ of 40.6p (2008: 35.3p).

The Group has a strong balance sheet and is highly cash generative. Net funds were £45m (2008: net debt of £9m) and the Group has committed working capital facilities of £90m through to June 2011. Group free cash flow⁴ was £89m (2008: £63m). Our working capital position has improved, despite the increased level of stock following acquisitions and new business wins.

The Board has proposed a final dividend of 11.3p per share, giving a total ordinary dividend per share of 16.7p, a 17% increase on the prior year. In addition, on 15 October 2009, the Board announced its intention to return up to £35m of cash to shareholders through a rolling share buyback programme. The dividend increase on the prior year, together with the announced return of cash to shareholders, reflects the cash generative nature of the Group and the Board's confidence in its future prospects.

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

² Profit after tax and before exceptional items – diluted.

³ EPS as per IAS 33 – diluted.

⁴ Net cash flow from operating activities adjusted for capital expenditure, pension deficit funding, tax refunds and net interest received.

WHSmith Travel

Nature of business and markets

The Travel business trades under the same brand as the High Street business and operates 490 units mainly in airports, railway stations, motorway service areas, hospitals, workplaces and bus stations, primarily in the UK. Of the 490 units, 121 are operated under franchise agreements. Travel's 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 entertainment and stationery products and the stock and format of each Travel store reflects this.

Travel's business model is made up of three elements: a compelling customer proposition, a strong track record with landlords, and the ability to translate the fundamentals of the model to other formats and channels.

Due to their location and convenience nature, Travel stores are, on average, significantly smaller than those in the High Street portfolio. At 31 August 2009, Travel operated from a total of 0.4m square feet of selling space, with units ranging in size from 90 square feet to more than 6,000 square feet. Of the 490 Travel units, 135 are in airports, 114 in railway stations, 118 in motorway service areas (most of which are franchise units), 95 in hospitals and 19 in locations such as bus stations and workplaces. Nine units are in four non-UK locations, in Paris, Shannon, Copenhagen and Stockholm.

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.

Travel's business model is made up of three elements: a compelling customer proposition, a strong track record with landlords, and the ability to translate the fundamentals of the model to other formats and channels.

Growth drivers

The Travel business offers opportunities for expansion in each of its channels and continues to win new contracts in hospitals, airports, railway stations, motorway service areas and workplaces.

Despite recent soft airport passenger numbers, medium-term forecasts predict that passenger numbers in Air will return to their historical growth levels and Travel is well-positioned to benefit when the recovery comes. In Rail, Hospitals and Motorways, we have seen little change in footfall.

The business continues to develop other store formats such as specialist bookstores, a tailored workplace format, and mobile "pods" for larger airports and stations where it is not possible to have a full shop. In addition, we are trialling different operating models in travel locations overseas: directly run, partnership and franchise.

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, as well as other factors affecting passenger traffic, can also affect operating results.

Travel faces competition in its product categories primarily from other convenience 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 sales 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 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 2008/09

Travel continued to deliver strong profit¹ growth despite soft passenger numbers in Air, demonstrating the strength of the Travel business model even in tough trading conditions. Profit¹ increased by 17 per cent to £48m (2008: £41m), achieved as a result of increased sales combined with improved underlying gross margin and tight cost control.

This year, we have continued to strengthen our position as a leading player in our four key sales channels with the integration of UNS Group Limited (UNS) and the 23 units acquired from Alpha Retail UK Limited (Alpha) now complete. We believe that the business is well-positioned to benefit from the economic recovery when it comes.

£m	2009	2008	% Change	LFL % Change
Revenue	448	413	8%	[2%]
Profit from trading operations ¹	48	41	17%	

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

Total Travel revenue grew by eight per cent, driven by new business wins and recent acquisitions. Sales were down by two per cent on a LFL basis with sales continuing to outperform passenger numbers. Gross margin increased by around 220 basis points (bps) during the period through better use of space, good category mix management and further buying improvements, resulting in more sales in higher margin categories such as confectionery and books. We have increased average transaction value by focusing on mix changes and improved promotional activity.

In our Airport units we saw LFL sales down four per cent. As expected, passenger numbers were soft, however, we continue to deliver performance ahead of passenger numbers and have consistently demonstrated our ability to do this. We remain focused on running the business and effectively managing our cost base relative to passenger trends. In our Rail channel, LFL sales were down two per cent.

During the year we have seen shifts in consumer demand and passenger make-up, particularly in Air, and we have flexed our offer accordingly. For example, we have increased promotional activity and introduced a strong value-for-money message branded "Ways to Save". Responding to changes in passenger make-up and airline schedules, we have also continued to introduce ranges tailored to individual locations, such as more British souvenirs for the larger numbers of tourists visiting the UK due to the strength of the euro.

The 23 airport units acquired from Alpha last year have now been fully integrated, with stores re-branded, systems integrated and all supply to those units now coming from our Travel distribution centre. We have introduced the key strengths of the WHSmith offer, increasing fixture density and expanding space for growth categories such as stationery and impulse.

Travel continued to deliver strong profit¹ growth, up 17 per cent to £48m.

Performance in our motorway service area units, which are primarily franchise units, has been in line with our expectations. Following our agreement with RoadChef last year, all of these units have now been converted to the WHSmith brand.

Last year also saw the acquisition of UNS. All 80 UNS units have now been re-branded and the UNS chain is now fully integrated into our central functions, including all Head Office and field functions, and all supply is now through our distribution centres. We have developed a new hospital-specific format that takes traditional WHSmith strengths and integrates ranges tailored to hospital staff, patients and visitors. This includes core ranges such as books, news and magazines combined with a greater variety of lunch options, an improved convenience range and basic groceries such as bread and milk. We continue to see good organic growth opportunities in this channel via this wider category mix and new space.

Business development

We renewed 18 contracts and completed 12 refits. We have opened a total of 51 new units and closed 10 units in the period, primarily due to landlord redevelopments.

The year has also seen further development of new formats including a mobile "pod" store for those locations within larger airports and stations where it is not feasible to put a full shop; and a "work" format catering for the needs of staff in large workplaces. We have also opened 14 more specialist "books-only" units, bringing the total number of books-only units to 23. We continue to consider international opportunities and, as we do so, we aim to trial different operating models: directly run, partnership and franchise.

WHSmith High Street

Nature of business and market

The High Street business operates 565 stores with an extensive reach across the UK and a presence on nearly every significant UK high street. At 31 August 2009, High Street operated from a total of 3.0m 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: Books, Stationery (including greetings cards), News and Impulse (including newspapers, magazines, confectionery and other impulse products), and a convenience offer of Entertainment products (including music, DVD and multimedia games). High Street's trading is relatively 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 Entertainment products through www.whsmithentertainment.co.uk

Despite challenging trading conditions, profits¹ for High Street are up four per cent to £49m.

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.

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 either retail format 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 long-term growth to 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, allowing it to operate with scale; purchasing and sourcing scale, driving value for the customer; and an experienced senior management team.

Performance review 2008/09

The High Street business continues to focus on the successful delivery of its strategy to build its position as Britain's most popular stationer, bookseller and newsagent. Despite the challenging trading conditions in our markets, we are making good progress. Profits¹ for High Street are up four per cent year-on-year to £49m, delivered through maintained focus on rebuilding authority in our core categories, tightly controlling costs, optimising margins and delivering the retailing basics.

High Street revenue was down five per cent and on a LFL basis down six per cent, in line with our strategic plan to rebalance the mix of our business towards our core categories. Excluding Entertainment, LFL sales were down two per cent. The business continues to be strongly cash generative as a result of efficient working capital management and effective, considered capital investment.

£m	2009	2008	% Change	LFL % Change
Revenue	892	939	(5%)	(6%)
Profit from trading operations ¹	49	47	4%	

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

In Books, we have made further progress with the implementation of our strategy to rebuild our authority as a popular book specialist and to compete more effectively with other high street specialists. Books sales were down, however, gross margin was up. We saw further good market share performance versus the general retail market with strong shares in children's books, where we have increased focus, introducing wider ranges in areas such as picture books. We also increased promotional activity on highly competed titles, for example, *Beedle the Bard*; and successfully linked up with third parties such as McDonalds and *The Times* to drive book sales.

Stationery sales were up, outperforming the general stationery market. Gross margin was up as planned, driven by intra category mix as well as improved seasonal markdown management and continued improvements in lower cost sourcing. Core sub-categories remain our focus and our share continues to be strong. Following the success of our trials of “bolt on” ranges to core categories, we are rolling these out, for example a range of educational toys and games, that complements and builds on our success in children’s books. We had a strong Back to School period with extra promotional space and a strong customer offer supported by TV advertising.

We have identified further savings of £14m, making a total target of £24m over the next three years.

News and Impulse sales were down, however, we saw an improvement in gross margin in the year. The magazine market continues to be challenging but our share in News and Magazines remained stable, supported by a number of exclusive titles in the strongly growing bookazine category, with titles to mark key events in the news, such as the election of Barack Obama and the death of Michael Jackson. Lottery also performed well and we installed 80 more terminals during the year.

In Entertainment, we continue with our strategy to reduce our presence in this category, and as we do this we are optimising profitability. LFL Entertainment sales were down 35 per cent driven by our strategy but also by availability issues following the collapse of Entertainment UK Limited, although our contingency plans minimised some of the impact of this on our profit performance. Our view of the long-term outlook for this category remains unchanged.

Gross margin improved by around 230bps, largely due to our strategy to change the mix of products we sell by reducing the amount of space dedicated to low-margin products such as Entertainment, and rebalancing the mix of the business to focus on higher margin categories such as Books and Stationery. These mix changes are likely to be a driver of overall profit growth in the years to come, without relying on top-line sales growth in the short- or medium-term. The remaining improvement in gross margin came from better management of promotions, reduced markdowns and improved sourcing.

Cost control has been a core part of our strategy and, in light of current economic conditions, our cost savings programme has been accelerated. In October 2008, we set a target of reducing costs by £25m over three years. In addition to the £9m of cost savings originally planned, High Street delivered accelerated cost savings of £6m in the year. These were delivered from a number of areas of the business including the variable costs associated with changes in our Entertainment category, and also from IT and savings in store as we continue to make use of new technology in some of our administratively heavy areas like News and Magazine returns. We have identified further savings of £14m, making a total target of £24m over the next three years.

The High Street business now operates from 565 stores, which occupy 3.0m square feet (2008: 3.0m square feet). We opened nine new stores and closed one store during the period.

Group profit

The Group generated a profit before tax and exceptional items of £82m (2008: £76m), an increase of eight per cent on the prior year. Profit from trading operations increased to £97m, up ten per cent on the prior year.

£m	2009	2008	Profit Growth %
Travel ¹	48	41	17%
High Street ¹	49	47	4%
Profit from trading operations¹	97	88	10%
Unallocated central costs	(14)	(14)	
Operating profit²	83	74	12%
Net finance [charges] / income	(1)	2	
Profit before taxation²	82	76	8%

¹ Profit from trading operations stated after directly attributable defined benefit service charge and share-based payment costs and before central costs, exceptional items, interest and taxation.

² Stated before exceptional items.

Net finance charges and taxation

The results include a net finance charge of £1m (2008: net finance income of £2m) due to lower cash balances following the £90m return of cash to shareholders and acquisitions in the prior year, and lower deposit rates.

The tax charge for the year was £18m (2008: £17m). The effective tax rate on continuing activities, excluding exceptional items, was 22 per cent (2008: 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 closing off outstanding tax assessments with the tax authorities.

Exceptional items – discontinued operations

The Group has recognised a £1m exceptional charge before tax in relation to discontinued operations.

A £4m exceptional charge was incurred arising from the crystallisation of reversionary property leases and a £3m exceptional credit was recognised from progress made on the winding up of the USA Travel business.

Earnings per share

Underlying earnings per share¹ increased by 17 per cent to 41.3p (2008: 35.3p), with earnings per share (including exceptional items)² of 40.6p (2008: 35.3p). Earnings per share calculations reflect the increase in profit and a lower basic weighted average number of shares in issue following the share buyback and share consolidation last year.

Underlying diluted earnings per share¹ of 41.3p were up 17 per cent on the prior year.

Dividends

The Board is proposing a final dividend of 11.3p per ordinary share, an increase of 16 per cent on the prior year, which reflects the cash generative nature of the Group and the Board's confidence in its future prospects. This gives a total ordinary dividend for the year of 16.7p per ordinary share, up 17 per cent on the prior year. Subject to shareholder approval, the dividend will be paid on 4 February 2010 to shareholders registered at the close of business on 8 January 2010. 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 £188m (2008: £161m) at the end of the year, an increase of £27m since 31 August 2008, reflecting the profit and cash generation of the Group over the year. The cash generative nature of the High Street and Travel businesses is one of the strengths of the Group.

Cash flow

The Group generated £89m (2008: £63m) of free cash flow during the year.

£m	2009	2008
Operating profit ³	83	74
Depreciation, amortisation and amounts written off fixed assets	41	42
Working capital	11	2
Capital expenditure	(28)	(39)
Tax	(23)	(21)
Net interest received	-	2
Net provisions	(1)	(3)
Other items	6	6
Free cash flow	89	63

³ Stated before exceptional items.

Cash inflows from working capital in the period were £11m due to the continued focus on working capital management, including the integration of the prior year acquisitions. The efficient management of payables and receivables has more than offset increased stock levels.

Capital expenditure was £28m in the year, an £11m decrease on the prior year. The prior year spend of £39m was higher than the Group's average capital expenditure due to the impact of the new business wins and acquisitions in the second half of last year. In 2009, we opened 51 new Travel units including Shannon Airport, Exeter Airport and Northwick Park Hospital, and nine High Street stores including Uttoxeter, Leominster and Haverhill. We continue to invest in maintaining our retail properties and during the period we have undertaken refurbishments at High Street and Travel stores. In 2010, we expect capital expenditure to be closer to the levels incurred in earlier years at around £32m.

£m	2009	2008
New stores and store development	10	19
Refurbished stores	9	9
Systems	6	8
Other	3	3
Total capital expenditure	28	39

In addition to the £89m of free cash flow generated in the year, the Group has seen a net cash outflow of £35m in relation to non-trading operations. This includes £23m of ordinary dividend payments (2008: £21m), £10m pension funding (2008: £10m) and a tax refund including associated interest of £6m (2008: £15m).

At 31 August 2009, the Group had net funds of £45m (2008: net debt of £9m). The Group has committed working capital facilities of £90m through to 26 June 2011, which are expected to be sufficient to meet its needs in the foreseeable future.

¹ Profit after tax and before exceptional items – diluted.

² EPS as per IAS 33 – diluted.

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	87%	22%
High Street	144	34%	15%
Trading operations	199	49%	18%
Unallocated central items	(54)		
Operating assets employed	145	57%	17%

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

² Return on capital employed is calculated as the operating profit before exceptional items 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.

For the prior year, comparable ROCE was 44 per cent (17 per cent – after capitalised operating leases).

Pensions

Following the completion of the triennial valuation of the main defined benefit pension scheme, the WHSmith Pension Trust, a revised deficit funding schedule of around £11m per annum (subject to indexation) has been agreed for the next 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 LDI structure continues to perform well. The scheme has been closed to new members since 1996 and, from 2007, has been closed to defined benefit service accrual.

The Group's IAS 19 pension deficit of £2m (2008: £nil) relates to the relatively small UNS defined benefit pension scheme. The IAS 19 valuation of the WHSmith Pension Trust at 31 August 2009 was £nil (2008: £nil). There is an actuarial deficit due to the different assumptions and calculation methodologies used compared with those under IAS 19.

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 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 net rental commitment of £160m (2008: £151m) (net of £7m of external rent receivable (2008: £8m)). The total future rental commitment at the balance sheet date amounted to £1,039m (2008: £900m), with the leases having an average life of six 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 rental commitment at approximately £50m (2008: £64m).

The Group has a strong balance sheet and has again demonstrated very good cash generation.

Outlook

This year, the Group has delivered another good profit performance, despite challenging trading conditions. The strong performance in Travel highlights the attractiveness of the division's business model and demonstrates Travel's ability to produce growth even when passenger numbers are soft. We continue to focus on the implementation of the High Street plan and are making good progress despite the subdued market. Our staff should be proud of what we have achieved and I would like to thank them for all their hard work and commitment over the year.

Looking forward, we expect the consumer environment to remain difficult and have built our plans to account for this. Both businesses are well-placed for any recovery in consumer spending. The Group has a strong balance sheet and has again demonstrated very good cash generation capabilities, leaving it in a strong position to continue to deliver value to shareholders.

Kate Swann
Group Chief Executive, WH Smith PLC
15 October 2009

KEY PERFORMANCE INDICATORS

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

	2009 £m	2008 £m	% Change	% LFL Change
Profit				
Travel ¹	48	41	17%	
High Street ¹	49	47	4%	
Group profit before tax and exceptional items	82	76	8%	
Underlying earnings per share²	41.3p	35.3p	17%	
Revenue				
Travel	448	413	8%	(2%)
High Street	892	939	(5%)	(6%)
Group	1,340	1,352	(1%)	(5%)
Gross margin	220bps	120bps		
Free cash flow³	89	63		
Fixed charges cover	1.5x	1.4x		

Retail selling space

	Store/Units			Selling Space (Sq ft '000s)		
	2009	2008	% Change	2009	2008	% Change
Travel units*	490	449	9%	420	364	15%
High Street stores	565	557	1%	3,007	3,005	–

* Includes 115 Motorway franchise units (2008: 101 units); 6 airport franchise units (2008: 0 units) and 12 Caffè Nuovo units (2008: 8 units).

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

² Profit after tax and before exceptional items – diluted.

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

RISKS AND UNCERTAINTIES

The Corporate Governance Report on pages 17 to 23 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. WHSmith's management team recognises 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.

Economic and market risks

As a UK retailer, WHSmith is sensitive to the economic climate and can be affected by the general condition of the UK retail and travel markets. Factors such as household disposal 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.

Competition in the retail industry

WHSmith operates in highly competitive markets and our failure to compete effectively with 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.

Reliance on the WHSmith brand

The WHSmith brand is an important asset. Failure to protect it, 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.

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 also 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 is a key contributor 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.

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 was 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 may also have a material effect on business. The Group has business continuity plans in place which are regularly reviewed, updated and tested.

Failure or interruption of information technology systems

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 people 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 executive directors to run the Group successfully.

Treasury and financial risk management

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 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's exposure to and management of capital, liquidity, credit, interest rate and foreign currency risk are summarised below. Further detail can be found in Note 26 of the accounts.

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 and uncommitted facilities with a number of financial institutions, which are available to be drawn for general corporate purposes including working capital.

Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables. The Group has a low retail credit risk due to the transactions being principally of a high volume, low value and short maturity. 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.

Capital risk

The Group's objectives when managing capital (defined as net debt plus equity) are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders, while optimising return to shareholders through an appropriate balance of debt and equity funding. The Group manages its capital structure and makes adjustments to it in light of changes to economic conditions and the strategic objectives of the Group.

Interest rate risk

The Group is exposed to cash flow interest rate risk on floating rate bank loans and overdrafts. At 31 August 2009, the Group had £nil (2008: £25m) drawn down from its committed revolving credit facility. The Group periodically draws down on this facility, but does not see any draw down as long-term in nature and has therefore not entered into interest rate derivatives to mitigate this risk.

Foreign currency risk

The Group's foreign currency exposures are principally to the US dollar and euro. 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. The euro exposure is principally operational and arises mainly through the ownership of a retail store in both France and Ireland. The Group does not use derivatives to hedge balance sheet and profit and loss translation exposure.

Investment risk management

The Group's defined benefit pension scheme, the WHSmith Pension Trust, has assets valued at £743m as at 31 August 2009. 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 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 to these instruments, and of the investment manager, is monitored regularly by the Committee, as such failure could expose the scheme to loss.

EMPLOYEES

The Group employs more than 17,000 people, primarily in the UK, and 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 while working for the Company, efforts are made to continue their employment and retraining is provided, if necessary.

Training and development

Our training and development programmes are focused on giving our staff the skills they need to move up to new roles, enabling them to develop their careers and ensuring that there is a pipeline of talent within the Group. During the year, we have also delivered training to staff joining us following the recent acquisition of UNS Group Limited and units from Alpha Retail UK Limited and Martin McColl, to help them integrate into WHSmith.

Employee engagement

Employees are kept informed of the performance and objectives of the Group through regular briefings and emails and the Company's open management style encourages employees to contribute to the development of the business.

Employee share ownership

The Company operates an 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 1,216 employees participate in the scheme.

SOCIAL AND ENVIRONMENTAL MATTERS

We continue to believe that good corporate responsibility (CR) is essential to the long-term success of our Group. Managing social and environmental matters is embedded into the day-to-day management of the Group. This year, we were delighted to retain Business in the Community's highest ranking in their annual CR Index, the Platinum status.

We divide our CR into four key areas: Marketplace, Environment, Workplace and Community. Accountability for each rests with our Board and every year it reviews our strategy and agrees the focus for the year ahead. The following section provides an introduction to our CR work during the year. More detailed information, notably performance data and future targets, is available in our full CR Report, available to view at: www.whsmithplc.co.uk/cr

Marketplace

Customers

Customer satisfaction is a key driver of our business performance. To ensure we continue to meet our customers' expectations, we regularly assess the service we offer through mystery shopping surveys and we have active programmes to provide customers with reassurance that our products have been made with respect for the environment and human rights.

We take our responsibility for the products we sell seriously and are committed to listening to our customers' feedback. Our Marketing Code of Practice sets out the standards we will follow to ensure we sell products that are safe, fit for purpose, meet legal standards and are never described in a misleading manner, particularly when marketing to children.

Suppliers

Ethical trading

We are committed to ensuring that the workers who manufacture our products are treated fairly and that our products are made in accordance with good environmental standards. Our Supplier Code of Conduct and Human Rights policy sets out the standards we want our suppliers to achieve and we work with them to help them improve their performance.

WHSmith's ethical audit team, based in our Hong Kong office, visits each new factory to assess its performance. Where necessary, any improvements will be agreed with the factory managers and we will continue to visit them on a regular basis to ensure compliance and provide support. We audit all our direct source suppliers in Asia every two years.

During the year, we have focused on broadening the scope of our ethical audits to include UK agents sourcing product from Asia. We have also strengthened our buyer training in ethical trade, enabling buyers to support our objectives.

WHSmith is a member of the Ethical Trade Initiative (ETI).

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 sources and certified forests to over 55 per cent, up from 41 per cent in 2008. We are pleased with this achievement but recognise there is more to do and we continue to work with key suppliers and our buying team to deliver further improvements.

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 52 days (2008: 45 days) based on average daily amounts invoiced by suppliers during the year.

Environment

We are committed to reducing the environmental impact of our business and recognise that greater environmental efficiency also makes good business sense.

Energy efficiency remains a focus for us and, this year, we have continued to reduce energy consumption through a targeted programme working with our store teams, as well as reviewing store equipment and design. We reduced our energy per square foot to 27.3KWh, a six per cent reduction from last year.

In order to reduce the carbon intensity of our transport operations, we measure the carbon dioxide emissions associated with the transport of each package from distribution centre to store. We also aim to reduce the overall number of packages moved. We continue to make progress in both areas.

Waste remains a key issue for the business. Our waste reduction programme focuses on increasing the amount of waste we recycle in our stores and distribution centres, an area where we have improved in the year. In addition, we are also committed to reducing the environmental impact of our carrier bags and looking at the materials from which our bags are made. In some regions we have introduced a carrier bag charge to encourage customers to think twice about taking a carrier bag. Over the year, we have reduced the number of carrier bags that we use by 35 per cent.

Health and safety

Our Board is 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 properly constituted Health and Safety Committee that comprises employee representatives, management, trade union representatives and professional safety advisers. This year, we continued our downward trend in the number of reported incidents, with the total number of reportable accidents falling by 1.5 per cent. Maintaining this trend is an ongoing area of focus over the coming year.

Community

As a leading bookseller and stationer we focus our community investment on supporting education and life-long learning. Our annual target is to invest at least one per cent of Group pre-tax profits in support of charities and community projects.

Charitable donations during the year ended 31 August 2009 totalled £89,700 (2008: £58,528). In addition, the Company facilitated the sale of charitable products which gave rise to further donations of £254,100 (2008: £340,751) and also made donations in kind with an estimated value of £104,900 (2008: £115,200). 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 community. In addition, we recognise employee involvement in the community through our annual Community Awards.

Supporting our literacy objectives, the Group has been working with the WHSmith Trust and with the National Literacy Trust for the past four years to fund the WHSmith Summer Read. This programme aims to foster a love of reading in children and encourage them to keep reading during their summer holidays.

We also raise funds for charities and good causes through the promotion and sale of tailored products in our stores, such as charity cards and calendars and our Adopt an Animal range.

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 (2008: Enil).

CORPORATE GOVERNANCE, AGM AND OTHER MATTERS

The Board of the Company is committed to achieving the highest standards of corporate governance. The principal governance rules applying to UK companies listed on the London Stock Exchange with accounting periods beginning after 29 June 2008 are contained in the Combined Code on Corporate Governance adopted by the Financial Reporting Council in June 2008 (the "Combined Code"). The Board confirms that the Company has applied the principles and complied with the provisions of the Combined Code throughout the financial year ended 31 August 2009.

The Board

On 15 October 2009, 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 25. There is a clear division of responsibility at the head of the Company; Robert Walker (Chairman) being responsible for running the Board and Kate Swann (Group Chief Executive) being responsible for implementing strategy. John Barton 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.

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. John Barton has served on the Board for ten years. The Chairman conducted a thorough review with John Barton to assess his independence and contribution to the Board and confirmed that he continues to be an effective non-executive director who demonstrates commitment to the role and remains independent in character and judgement. John Barton stepped down as Chairman of the Remuneration Committee on 1 July 2009.

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 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 and the need for director training is regularly assessed by the Board.

The performance of the Board is a fundamental component of the Company's success. The Board carried out a formal evaluation of its performance in September 2009. 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 strategic and entrepreneurial leadership of the Company, a sound governance framework and practices compliant with the Combined Code.

The Group Chief Executive reviews the performance of the Group Finance Director. The Chairman reviews the performance of the Group Chief Executive and each non-executive director. During the year, the Chairman met 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.

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 Annual General Meeting following their appointment.

Board Committees

Audit Committee

The Audit Committee is chaired by Mike Ellis, who has recent and relevant financial experience, and its other members are John Barton, Drummond Hall and Luke Mayhew, 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: a review of the preliminary and interim announcements, Annual Report and Financial statements; the consideration of 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 incidences of fraud; reviewing the Company's Business Continuity Plans; and reviewing the effectiveness of the Company's whistleblowing process.

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

Nominations Committee

The Nominations Committee is chaired by Robert Walker and its other members are John Barton, Mike Ellis, Drummond Hall, Luke Mayhew 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 once formally and the non-executive directors met on a number of occasions informally to discuss succession issues during the year. Its activities included a review of the Company's succession plans and discussion in respect of the ongoing shape and capability of the Board. In accordance with the Company's succession plan, Robert Moorhead was appointed as the Group Finance Director on 1 December 2008 following the departure of Alan Stewart on 28 November 2008.

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 John Barton, Mike Ellis, Luke Mayhew and Robert Walker. At the invitation of the Committee, the Group Chief Executive and representatives of Hewitt New Bridge Street, its external independent advisor, attend meetings. The Committee met four 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 the executive directors 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 26 to 34 as required by the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008. The Committee's terms of reference are available on the Company's website.

Attendance at Board/Committee meetings

The following table shows the number of Board and Committee meetings held during the year ended 31 August 2009 and the attendance record of individual directors:

	Board meetings	Committee meetings		
		Audit	Nominations	Remuneration
No. of meetings	8	4	1	4
Robert Walker	8	4	1	4
Kate Swann	8	-	1	4
Robert Moorhead (appointed 01.12.08)	6	3	-	-
Alan Stewart (resigned 28.11.08)	2	1	-	-
John Barton	8	4	1	4
Mike Ellis	8	4	1	4
Drummond Hall	8	4	1	4
Luke Mayhew	8	4	1	4

The Board has met three times since 31 August 2009 and all the directors attended the meetings. In addition, the Remuneration Committee and the Nominations Committee have met twice and the Audit Committee has met once since 31 August 2009. These meetings were attended by all Committee members.

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 on the Combined Code" produced by the Financial Reporting Council (the "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. 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 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; and
- 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 Guidance.

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 and the Group'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 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, 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 impacts 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 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.

Auditor Independence

On 1 December 2008, Deloitte & Touche LLP changed its name to Deloitte LLP. The Board is satisfied that Deloitte LLP has adequate policies and safeguards in place to ensure that auditor objectivity and independence is maintained. The external auditors report to the Audit Committee annually on their independence from the Company. Periodic rotation of key audit partners is also required. 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 Board has also adopted a formal policy on the Company's relationship with its auditor in respect of non-audit work. The auditors may only provide such services provided that 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. The fees paid to the auditors in respect of non-audit services are shown in Note 3 to the Accounts.

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 reappointment of Deloitte LLP at the Annual General Meeting on 27 January 2010.

Relations with Shareholders

The Company recognises the importance of communicating with its shareholders to ensure that its strategy and performance is 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.

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 Combined Code

Throughout the year ended 31 August 2009 the Company has been in compliance with the provisions of the Combined Code.

Dividends

The directors recommend the payment of a final dividend for the year of 11.3p per ordinary share on 4 February 2010 to members on the Register at the close of business on 8 January 2010.

This final dividend and the interim dividend of 5.4p per ordinary share paid on 12 June 2009 makes a total dividend of 16.7p per ordinary share for the year ended 31 August 2009.

Share capital

The authorised and issued share capital of the Company, together with details of shares issued during the year, are shown in Note 27 to the Accounts.

The issued share capital of the Company as at 31 August 2009 was 156,858,000. The ordinary shares of 22⁶/₇p 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, 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 optionholders 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 2009 AGM, authority was given for the Company to purchase, in the market, up to 23,135,555 ordinary shares of 22⁶/₇p each. The Company did not use this authority to make any purchases of its own shares during the financial year. The Company announced on 15 October 2009 its intention to return up to £35m to shareholders via a rolling share buyback programme. This authority is renewable annually and approval will be sought from shareholders at the AGM in 2010 to renew the authority for a further year.

Issue of new ordinary shares

During the financial year ended 31 August 2009, 6,766 ordinary shares of the Company were issued under the Sharesave Scheme at a price of 295.82p. 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 relevant securities, 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 lease and licence agreements to take effect, alter or terminate. In addition, the directors' service agreements and employee share plans would be similarly affected on a change of control, including in the case of the directors, compensation for loss of office. In the context of the Company as a whole, these agreements are not considered to be significant.

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 29.

Director's 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	%	Nature of Holding
Standard Life Investments Limited	15,549,531	9.91	Direct/ Indirect
Legal & General Group PLC	8,694,007	5.54	Direct/ Indirect
Jupiter Asset Management Limited	7,787,536	4.96	Indirect
AXA S.A.	7,554,312	4.82	Direct/ Indirect
Artemis Investment Management Limited	7,774,084	4.76	Direct
JP Morgan Chase & Co.	7,428,306	4.74	Indirect
Barclays Global Investors	4,809,497	3.05	Indirect

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.

Board of directors

The names of the directors as at the date of this report, together with biographical details, are set out on page 25. All the directors served throughout the period except as set out below:

Alan Stewart, who served as a director from March 2005, resigned from the Board on 28 November 2008.

Robert Moorhead was appointed as a director on 1 December 2008.

The Company's Articles of Association give a power to the Board to appoint directors and, where notice is given 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.

In accordance with good corporate governance, John Barton who was appointed to the Board as a non-executive director in November 1999 and has served on the Board for ten years will retire and, being eligible, offers himself for election at the AGM. John Barton has been appointed for a fixed term until the Company's AGM in 2011 and does not have a contract of service. The Chairman conducted a thorough review with John Barton to assess his independence and contribution to the Board and confirmed that he continues to be an effective independent non-executive director and continues to add value. The Board believes that John Barton is an effective independent non-executive director notwithstanding the fact that he will have served on the Board for ten years since the date he was first appointed to the Board by the time of the AGM on 27 January 2010. John Barton has extensive financial and retail experience which the Board continues to benefit from in managing the Company.

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 26 to 34.

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.

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. The 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 23 to 26 of the Accounts. In addition Note 26 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 main risks and uncertainties facing the Group.

The directors report that they have reviewed current performance and forecasts, combined with expenditure commitments, including capital expenditure and proposed dividends and proposed 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 have expressed their 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 their remuneration will be proposed at the Annual General Meeting.

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 by 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 should have taken as a director to make himself 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 27 January 2010 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 15 October 2009.

By Order of the Board

Ian Houghton
Company Secretary
15 October 2009

The directors are responsible for the management of the business of the Company and may exercise all the powers of the Company subject to applicable legislation and regulation, the Company's Memorandum and Articles of Association.

Company law requires the directors to prepare financial statements for each financial year. The directors are required by the IAS Regulation to prepare the Group financial statements under International Financial Reporting Standards (IFRSs) as adopted by the European Union. The Group financial statements are also required by law to be properly prepared in accordance with the Companies Act 2006 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that IFRS financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, directors are also required to:

- (a) properly select and apply accounting policies;
- (b) present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- (c) 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.

The directors 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). The parent company financial statements are required by law to give a true and fair view of the state of affairs of the Company.

In preparing these financial statements, the directors are required to:

- (a) select suitable accounting policies and then apply them consistently;
- (b) make judgements and estimates that are reasonable and prudent;
- (c) state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- (d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the parent company 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, as described more fully in the Corporate Governance Report on pages 17 to 23.

The directors confirm that the above requirements have been complied with in the financial statements.

DIRECTORS' RESPONSIBILITY STATEMENT PURSUANT TO DTR4

The directors confirm that, to the best of their knowledge:

- (a) 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
- (b) the management report contained in this report includes a fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

Kate Swann
Group Chief Executive

Robert Moorhead
Group Finance Director



1



2



3



4



5



6



7

BOARD COMMITTEES

Audit Committee

Mike Ellis – Chairman
John Barton
Drummond Hall
Luke Mayhew

Remuneration Committee

Drummond Hall – Chairman
John Barton
Mike Ellis
Luke Mayhew
Robert Walker

Nominations Committee

Robert Walker – Chairman
John Barton
Mike Ellis
Drummond Hall
Luke Mayhew
Kate Swann

1. Robert Walker joined the Board of WH Smith as a non-executive director in January 2005 and became Chairman on 1 February 2005. He is Chairman of BCA Holdings Limited and Americana International Limited. He is also a non-executive director of Tate and Lyle plc and Travis Perkins plc, where he is also Chairman designate. He was previously Chairman of Williams Lea Holdings plc and has served on various Boards, including Wolseley plc, BAA plc, Signet Group plc, and Severn Trent plc, where he was Group Chief Executive. He started his career at Procter & Gamble and McKinsey & Co., then spent more than 20 years with PepsiCo Inc, culminating as a Division President. Aged 64.

2. Kate Swann is Group Chief Executive and joined the Board of WH Smith 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. Aged 44.

3. Robert Moorhead is Group Finance Director and joined the Board of WH Smith on 1 December 2008. He joined WH Smith 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 held a number of roles at B&Q and Kingfisher Group. He started his career at Price Waterhouse. Aged 44.

4. John Barton is a non-executive director and Senior Independent Director and joined the Board of WH Smith in November 1999. He retired as Chairman of Jardine Lloyd Thompson Group plc in December 2001, having formerly been the Chief Executive of Jardine Insurance Brokers Group plc. He is Chairman of Next plc and Brit Insurance Holdings PLC. He is also a non-executive director of Cable & Wireless plc. Aged 65.

5. Mike Ellis is a non-executive director and joined the Board of WH Smith in March 2005. He rejoined the Board of HBOS plc in September 2007 and was Group Finance Director from January 2008 to January 2009, having previously held the position from September 2001 to October 2004. Prior to this, for 14 years, he worked in a number of senior executive positions at Halifax plc (and its predecessor, Halifax Building Society) and was appointed Chief Operating Officer in 1999. Aged 58.

6. Drummond Hall is a non-executive director and joined the Board of WH Smith in September 2008. He spent his early years with Procter & Gamble, Mars and PepsiCo Inc, and from 2002 to 2006 was Chief Executive of Dairy Crest PLC. He is Chairman of Mitchells and Butlers PLC and is also a non-executive director of Burton's Holdings Limited. Aged 60.

7. Luke Mayhew is a non-executive director and joined the Board of WH Smith in July 2005. He was Managing Director of John Lewis from 2000 to 2004, prior to which, from 1992 to 2000, he was Director of Research and Expansion of the John Lewis Partnership. He is Chairman of Pets at Home Group Limited and the British Retail Consortium. He is also a non-executive director of Brambles Limited. Aged 56.

Ian Houghton is Company Secretary and Legal Director. Aged 43.

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 Combined Code on Corporate Governance 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 2009.

PART A – UNAUDITED INFORMATION

REMUNERATION COMMITTEE

The Remuneration Committee met four times during the year. It is chaired by Drummond Hall who was appointed as Chairman of the Committee on 1 July 2009. The other members of the Committee are John Barton, Mike Ellis, Luke Mayhew and Robert Walker. John Barton stood down as Chairman of the Committee on 1 July 2009.

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 Hewitt New Bridge Street (HNBS), a trading name of Hewitt Associates Limited, as its external independent advisor with effect from 5 June 2009. Prior to that date, the Committee received external independent advice

and services from Mercer Limited. 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. Hewitt Associates 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 Robert Walker 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 executive directors and align executive directors' and shareholders' interests. In determining such policy the Remuneration Committee take into account all factors which it deems necessary, including the Company's wider pay structures. 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.

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.

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

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

Name	Performance -related elements		
	Fixed	Annual bonus	Long-term incentives
	Base salary		
Kate Swann	22%	33%	45%
Robert Moorhead	27%	27%	46%

a) Kate Swann can earn up to 150 per cent of salary for maximum performance and Robert Moorhead can earn up to 100 per cent of salary for maximum 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 the WH Smith LTIP.

c) The above table does not include the value of other benefits and employer pension contributions.

SALARY AND BENEFITS

The salaries of executive directors are reviewed annually in September. 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 Company. Following the review in September 2009 the executive directors did not receive a pay increase. 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. 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

For the year under review, Kate Swann had the opportunity to receive an annual bonus up to a maximum of 150 per cent of base salary and Robert Moorhead had the opportunity to receive an annual bonus up to a maximum of 100 per cent of base salary. The plan is designed so that the level of bonus paid is dependent on the achievement of a profit before tax and after interest target and personal performance. No bonus is paid unless the minimum profit target is achieved. The Annual Bonus Plan remains unchanged for the financial year ending 31 August 2010. The overall bonuses earned in the year were above on-target levels. The profit target was exceeded.

LONG-TERM INCENTIVES

WH Smith 2008 Management Investment Plan (“2008 MIP”)

Under this plan, executive directors and key senior executives are given the opportunity to invest their own money to buy ordinary shares in the Company and are granted matching awards to acquire further ordinary shares in proportion to the amount they have invested. Executive directors and certain other key executives may invest up to 150 per cent of base salary and other executives up to 75 per cent of base salary. The number of shares over which a matching award may be granted is up to five times the amount invested in the case of executive directors and up to 3.75 times the amount invested for other executives.

The policy is only to make awards under the 2008 MIP every three years so a general award was not made in the financial year under review. However, a supplemental award was made to Robert Moorhead (in anticipation of his joining the Board) on 21 October 2008.

Following extensive consultation with shareholders, the Committee adopted a combination of financial and market-based measures aimed at delivering enhanced returns to shareholders. It believes that such a combination of targets is best suited to the needs of the Company and its shareholders.

For awards granted under the 2008 MIP, the extent to which matching awards vest will depend on the satisfaction of Earnings per Share (EPS) and Total Shareholder Return (TSR) performance targets. The performance targets are as follows:

- a) Sixty per cent of the award is dependent on the satisfaction of an EPS performance target. EPS will be measured over the three years ending on 31 August 2010 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 will be achieved if there is EPS growth at a compound rate equal to eight per cent per annum. Maximum performance which results in the vesting of 80 per cent of the shares will be achieved if there is EPS growth at a compound rate equal to 13 per cent per annum. Super-stretch performance which results in full vesting will be achieved if there is EPS growth at a compound rate equal to or exceeding 15 per cent per annum; and

b) Forty per cent 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 (the "Index") over the period between 11 October 2007 and the announcement of the Company's results on 14 October 2010 for the year ending 31 August 2010. Threshold performance will require that the Company's TSR is at the median position relative to the Index. Maximum performance will require the Company's TSR to be at the 75th percentile relative to the Index and super-stretch performance will require the Company's TSR to be at the 85th percentile relative to the Index.

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

For the purpose of calculating TSR, the base price for the Company's ordinary shares and the Index was averaged over the one-month period following the announcement of the Company's results on 11 October 2007. At the end of the TSR Performance Period, the TSR condition will be measured using the average share price over the one-month period starting on the date of announcement of the Company's results on 14 October 2010. HNBS independently carries out the relevant TSR calculations for the Company.

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 condition.

The Committee will consider whether to make further awards to executive directors and key senior executives under the plan following the announcement of the Company's results on 14 October 2010.

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 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 will conduct its annual review of the performance measures and targets prior to the grant of awards in October 2009. In conducting this review the Committee will consider whether other performance measures, such as free cash flow, may be more appropriate to deliver the objectives of the Company and create shareholder value.

The performance conditions for awards granted in the financial year ended 31 August 2009 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 2011 (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 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 2008 were as follows:

a) the performance condition applying to 60 per cent of the award shares is dependent on the satisfaction of an EPS performance target. EPS will be measured over the three years ending on 31 August 2010 and will measure growth in fully diluted EPS before exceptional items. Thirty per cent vesting will occur if there is EPS growth at a compound rate equal to RPI plus three per cent per annum. Full vesting will occur if there is EPS growth at a compound rate equal to RPI plus nine per cent per annum; and

b) the performance condition applying to the remaining 40 per cent of such an award is based on the Company's TSR performance against the FTSE All Share General Retailers Index over the period between 11 October 2007 and the announcement of the Company's results on 14 October 2010 for the year

ending 31 August 2010. Thirty per cent vesting will occur if the Company's TSR is at the median position relative to the Index. Full vesting will occur if the Company's TSR is at or above the 75th percentile relative to the Index.

The performance conditions for awards granted in the financial year ended 31 August 2007 were split equally between EPS and TSR and are otherwise the same as those performance conditions for awards granted in the financial year ended 31 August 2008.

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

WH Smith share option schemes

The Company operates two types of share option scheme:

- a) 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. The performance target for options granted in the financial year ended 31 August 2009 is measured over a fixed three-year period and requires adjusted EPS growth of RPI plus ten per cent in order for full vesting to occur. The performance target for options granted in the financial years ended 31 August 2007 and 31 August 2008 is measured over a fixed three-year period and the proportion that will become exercisable increases on a straight-line basis from 40 per cent for adjusted EPS growth of RPI plus nine per cent to 100 per cent for adjusted EPS growth of RPI plus 15 per cent. The Committee believes that EPS growth provides focus on increasing the Company's share price over the medium to long-term and is the most appropriate measure of the Company's underlying financial performance. The Committee will conduct its annual review of the performance target prior to the grant of options in October 2009. The executive directors did not participate in this scheme in the financial year ended 31 August 2009; and
- b) 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 term of three or five years. 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.

PRE-DEMERGER SHARE PLANS

WH Smith 2004 Management Investment Plan

The performance conditions under this plan were fully met in the financial year ended 31 August 2008 and the

remaining 25 per cent of the awards granted to executive directors and other key senior executives became capable of exercise from 31 January 2009.

WH Smith 2004 L-TIP

The performance conditions for awards granted in the financial year ended 31 August 2006 were split equally between EPS and TSR and are otherwise the same as those performance conditions for awards granted under the WH Smith LTIP in the financial year ended 31 August 2008 described on pages 28 and 29.

The performance conditions under this plan were fully met in the financial year ended 31 August 2008.

Personal shareholdings

Executive directors and senior executives are encouraged to build up and hold a significant shareholding in the Company.

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 Jul 2003	1 year	9 months
Robert Moorhead	1 Dec 2008	1 year	9 months
Alan Stewart*	3 Mar 2005	1 year	9 months

* Alan Stewart resigned as a director on 28 November 2008.

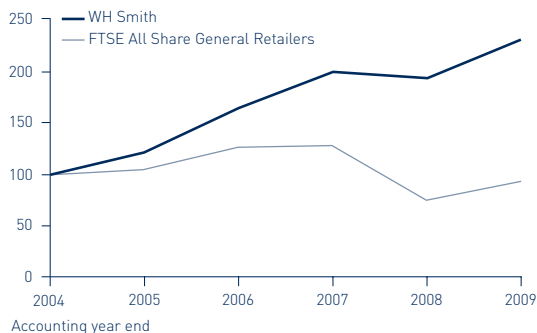
It is the Company's policy to enter into contracts of employment with executive directors which may be terminated at any time by the Company upon 12 months' notice and upon nine months' notice by the executive director. Under the Company's policy, in the event of a change of control of the Company there 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 and is subject to re-election by shareholders every three years at the AGM. 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 and are subject to re-election by shareholders every three years at the AGM. These appointments can be terminated by either the Company or the non-executive director without notice.

Performance graph

Cumulative TSR Growth since 31 August 2004



- a) 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.
- b) 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 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 2,136,037 shares, the number of WH Smith shares held in the WH Smith Employee Benefit Trust at 31 August 2009 was 7,605,659. The Group's accounting policy is detailed within Note 1 of the Accounts and movements are detailed in the Group Reconciliation of Movements in Equity on page 39.

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, 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 2009 the total contribution for Kate Swann was equivalent to 35 per cent of salary, for Robert Moorhead it was 25 per cent of salary and for Alan Stewart it was 30 per cent of salary.

External appointments

The Company believes there are significant benefits to the individual and the Company from executive directors accepting non-executive directorships in other organisations. 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.

The executive directors may retain fees from one of their external directorships. The fees received and retained by the executive directors in respect of their non-executive directorships are shown in the table below:

Directorship	Received £'000s	Retained £'000s
Kate Swann The British Land Company PLC	64	64

Kate Swann retired from the British Land Company PLC on 10 July 2009.

PART B – AUDITED INFORMATION

DIRECTORS' REMUNERATION

The remuneration of the directors for the financial year ended 31 August 2009 was as follows:

	Salary / fees £'000s	Annual performance bonus £'000s	Benefits, pension supplement and other payments £'000s	Total £'000s	Year to 31 August 2008 £'000s
Robert Walker	200	–	1	201	200
Kate Swann	525	787	109	1,421	1,453
Robert Moorhead	225	252	11	488	–
John Barton	50	–	–	50	50
Mike Ellis	46	–	–	46	43
Drummond Hall	41	–	–	41	–
Luke Mayhew	40	–	–	40	39
Directors retiring from the board during the year:					
Alan Stewart	108	–	31	139	742
Former directors	–	–	–	–	16
Total £'000s	1,235	1,039	152	2,426	2,543

- a) Robert Moorhead was appointed as a director of the Company on 1 December 2008. Robert Moorhead's annual salary is £300,000.
- b) John Barton resigned as Chairman of the Remuneration Committee on 1 July 2009.
- c) Drummond Hall was appointed as Chairman of the Remuneration Committee on 1 July 2009.
- d) Alan Stewart resigned as a director of the Company on 28 November 2008 and left the Company's employment on 31 December 2008.
- e) Benefits 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, WH Smith Pensionbuilder, during the year ended 31 August 2009:

	Employee contribution		Employer contribution	
	% of salary	£'000s	% of salary	£'000s
Kate Swann	5	26	52	275
Robert Moorhead	5	11	25	56
Alan Stewart	5	5	5	5

- 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.
- b) The Company contribution for Kate Swann included a payment of £183,450 in respect of the bonus sacrifice that she made in November 2008. This sum was included in the bonus payment that Kate Swann received for the year ended 31 August 2008 and was included in the table of Directors' remuneration under the heading Annual performance bonus.
- c) Alan Stewart participated in WHSmith Pensionbuilder until leaving the Company on 31 December 2008.
- d) 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.

LONG-TERM INCENTIVES

Share award schemes

Details of the conditional awards (in the form of nil-cost options) to acquire ordinary shares of the Company granted to executive directors are as follows:

	Date of grant	Number of shares subject to awards at 31 August 2008 (or date of appointment)	Number of shares subject to awards granted during the year	Number of shares subject to awards exercised during the year	Number of shares subject to awards which lapsed during the year	Number of shares subject to awards at 31 August 2009 (or date of leaving)	Share price at date of grant (pence)	Exercise period
Kate Swann								
WH Smith 2004 Management Investment Plan	03.11.04	235,047	–	235,047	–	–	343.00	31.01.09 – 01.02.10
WH Smith 2004 L-TIP	02.11.05	184,675	–	184,675	–	–	267.00	09.10.08 – 02.11.15
	09.02.06	124,911	–	124,911	–	–	296.00	09.02.09 – 09.02.16
WH Smith LTIP	19.10.06	296,450	–	–	–	296,450	350.00	19.10.09 – 19.10.16
	21.10.08	–	301,006	–	–	301,006	348.83	Oct 2011 – 21.10.18
WH Smith 2008 Management Investment Plan	22.11.07	1,217,441	–	–	–	1,217,441	316.75	Nov 2010 – Nov 2012
Total		2,058,524	301,006	544,633	–	1,814,897		
Robert Moorhead								
WH Smith 2004 Management Investment Plan	03.11.04	52,394	–	52,394	–	–	343.00	31.01.09 – 01.02.10
WH Smith 2004 L-TIP	09.02.06	24,749	–	24,749	–	–	296.00	09.02.09 – 09.02.16
WH Smith LTIP	19.10.06	95,450	–	–	–	95,450	350.00	19.10.09 – 19.10.16
	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
WH Smith 2008 Management Investment Plan	22.11.07	226,145	–	–	–	226,145	316.75	Nov 2010 – Nov 2012
	21.10.08	–	378,242	–	–	378,242	347.00	Nov 2010 – Nov 2012
Total		464,464	507,245	77,143	–	894,566		

	Date of grant	Number of shares subject to awards at 31 August 2008 (or date of appointment)	Number of shares subject to awards granted during the year	Number of shares subject to awards exercised during the year	Number of shares subject to awards which lapsed during the year	Number of shares subject to awards at 31 August 2009 (or date of leaving)	Share price at date of grant (pence)	Exercise period
Alan Stewart								
WH Smith 2004 Management Investment Plan	26.04.05	134,974	-	-	-	134,974	359.00	31.01.09 - 01.02.10
WH Smith 2004 L-TIP	02.11.05	114,347	-	114,347	-	-	267.00	09.10.08 - 02.11.15
	09.02.06	77,342	-	-	77,342	-	296.00	09.02.09 - 09.02.16
WH Smith LTIP	19.10.06	160,612	-	-	160,612	-	350.00	19.10.09 - 19.10.16
WH Smith 2008 Management Investment Plan	22.11.07	753,818	-	-	753,818	-	316.75	Nov 2010 - Nov 2012
Total		1,241,093	-	114,347	991,772	134,974		

- 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 performance targets for awards granted under the WH Smith 2004 Management Investment Plan were fully met. The remaining 25 per cent of awards became capable of exercise on 31 January 2009.
- c) In respect of the award under the WH Smith 2004 Management Investment Plan held by Kate Swann which vested on 31 January 2009, the value of the 235,047 Company shares on the date of exercise was £775,716.21 (330.026p per ordinary share).
- d) In respect of the award under the WH Smith 2004 Management Investment Plan held by Robert Moorhead which vested on 31 January 2009, the value of the 52,394 Company shares on the date of exercise was £177,798.52 (339.349p per ordinary share).
- e) The Company performance targets (set out on page 29) for awards granted under the WH Smith 2004 L-TIP were fully met.
- f) In respect of the award granted on 2 November 2005 under the WH Smith 2004 L-TIP held by Kate Swann, the value of the 184,675 Company shares on the date of exercise was £689,900.92 (373.5757p per ordinary share). In respect of the award granted on 9 February 2006 under the WH Smith 2004 L-TIP held by Kate Swann, the value of the 124,911 Company shares on the date of exercise was £450,862.26 (360.9468p per ordinary share).
- g) In respect of the award granted on 2 November 2005 under the WH Smith 2004 L-TIP held by Alan Stewart, the value of the 114,347 Company shares on the date of exercise was £444,848.94 (389.0342p per ordinary share).
- h) In respect of the award granted on 9 February 2006 under the WH Smith 2004 L-TIP held by Robert Moorhead, the value of the 24,749 Company shares on the date of exercise was £89,330.72 (360.9468p per ordinary share).
- i) Alan Stewart resigned as a director on 28 November 2008. The L-TIP awards granted to him on 9 February 2006 and 19 October 2006 lapsed on 28 November 2008. The matching award granted to him on 22 November 2007 under the WH Smith 2008 Management Investment Plan lapsed on 28 November 2008.
- j) Matching awards granted under the WH Smith 2008 Management Investment Plan will only vest to the extent that the performance targets as set out on pages 27 and 28 are satisfied.
- k) Awards granted under the WH Smith LTIP will only vest to the extent that the performance conditions set out on page 28 are satisfied.
- l) No option price is payable on either the grant or exercise of any award.
- m) No awards have been granted to or exercised by directors between 1 September 2009 and 15 October 2009.

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 2008 (or date of appointment)	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 2009 (or date of leaving)	Option price (pence)	Exercise period
Kate Swann								01.02.10
SAYE	29.11.06	3,201	–	–	–	3,201	295.20	– 31.07.10
Total		3,201	–	–	–	3,201		
Robert Moorhead								01.02.10
SAYE	29.11.06	3,201	–	–	–	3,201	295.20	– 31.07.10
Total		3,201	–	–	–	3,201		
Alan Stewart								01.02.10
SAYE	29.11.06	3,201	–	–	3,201	–	295.20	– 31.07.10
Total		3,201	–	–	3,201	–		

- The middle market price of an ordinary share at the close of business on 31 August 2009 was 441.10p (31 August 2008: 385p).
- The high and low middle market prices of an ordinary share during the year were 449.75p and 312p respectively.
- Alan Stewart resigned as a director on 28 November 2008. The Sharesave option granted to him on 29 November 2006 lapsed on 28 November 2008.
- No options have been granted to or exercised by directors between 1 September 2009 and 15 October 2009.

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 2009	31 August 2008 (or date of appointment)
John Barton	14,486	14,486
Mike Ellis	4,527	4,527
Drummond Hall	10,000	–
Luke Mayhew	7,243	7,243
Robert Moorhead	176,504	185,009
Kate Swann	601,589	280,765
Robert Walker	39,743	39,743

There has been no change in the directors' interests shown above between 1 September 2009 and 15 October 2009.

Shareholder approval

A resolution to approve the Remuneration Report is being proposed at the Annual General Meeting.

By Order of the Board

Drummond Hall

Chairman of the Remuneration Committee

15 October 2009

TO THE MEMBERS OF WH SMITH PLC

We have audited the Group financial statements of WH Smith PLC for the year ended 31 August 2009 which comprise the Group Income Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Recognised Income and Expense, the Group Reconciliation of Movements in Equity and the related Notes 1 to 31. 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 sections 495 and 496 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 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.

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 2009 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.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in Note 1 to the Group financial statements, the Group in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the Group financial statements comply with IFRSs as issued by the IASB.

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 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:

- the part of the Directors' Remuneration Report to be audited is 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.

Under the Listing Rules we are required to review:

- the directors' statement contained within the Directors' Report and Business Review in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Other matter

We have reported separately on the parent Company financial statements of WH Smith PLC for the year ended 31 August 2009.

Ian Waller (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
 Chartered Accountants and Statutory Auditors
 London, United Kingdom
 15 October 2009

FOR THE YEAR ENDED 31 AUGUST 2009

£m	Note	2009			2008		
		Before exceptional items	Exceptional items	Total	Before exceptional items	Exceptional items	Total
Continuing operations							
Revenue	2	1,340	–	1,340	1,352	–	1,352
Operating profit	2, 3	83	–	83	74	–	74
Investment income	9	1	–	1	5	–	5
Finance costs	10	(2)	–	(2)	(3)	–	(3)
Profit before tax		82	–	82	76	–	76
Income tax expense	11	(18)	–	(18)	(17)	–	(17)
Profit after tax from continuing operations		64	–	64	59	–	59
Loss for the year from discontinued operations	4	–	(1)	(1)	–	–	–
Profit for the year		64	(1)	63	59	–	59
Earnings per share¹							
Basic – continuing operations	13			42.7p			36.4p
Diluted – continuing operations	13			41.3p			35.3p
Basic	13			42.0p			36.4p
Diluted	13			40.6p			35.3p
Non GAAP measures							
Underlying earnings per share²							
Basic – continuing operations	13			42.7p			36.4p
Diluted – continuing operations	13			41.3p			35.3p
Basic	13			42.7p			36.4p
Diluted	13			41.3p			35.3p
Equity dividends per share³				16.7p			14.3p
Fixed charges cover	8			1.5x			1.4x

¹ Earnings per share is calculated in accordance with IAS 33 'Earnings per share'.

² Underlying earnings per share excludes exceptional items.

³ Dividend per share is the final proposed dividend of 11.3p (2008: 9.7p) and the interim dividend of 5.4p (2008: 4.6p). Prior year excludes the special dividend of 33p per ordinary share paid on 29 February 2008.

AS AT 31 AUGUST 2009

£m	Note	2009	2008
Non-current assets			
Goodwill	14	32	32
Other intangible assets	15	24	23
Property, plant and equipment	16	163	177
Deferred tax assets	22	9	11
Trade and other receivables	17	4	4
		232	247
Current assets			
Inventories		151	147
Trade and other receivables	17	56	66
Current tax asset		7	4
Derivative financial assets	26	1	2
Cash and cash equivalents	23	47	22
		262	241
Total assets		494	488
Current liabilities			
Trade and other payables	18	(242)	(239)
Current tax liabilities		(34)	(31)
Obligations under finance leases	20, 23	(2)	(4)
Bank overdrafts and other borrowings	23	-	(25)
Short-term provisions	21	(3)	(4)
		(281)	(303)
Non-current liabilities			
Retirement benefit obligation	5	(2)	-
Deferred tax liabilities	22	(8)	(10)
Long-term provisions	21	(5)	(4)
Obligations under finance leases	20, 23	-	(2)
Other non-current liabilities	19	(10)	(8)
		(25)	(24)
Total liabilities		(306)	(327)
Total net assets		188	161
Total equity		188	161

£m	Note	2009	2008
Shareholders' equity			
Called up share capital	27	35	35
Capital redemption reserve		2	2
Revaluation reserve		2	2
ESOP reserve		(28)	(28)
Hedging reserve		1	2
Translation reserve		(2)	(2)
Other reserve		(187)	(179)
Retained earnings		365	329
Total equity		188	161

The consolidated financial statements of WH Smith PLC, registered number 5202036, were approved by the Board of Directors and authorised for issue on 15 October 2009 and were signed on its behalf by:

Kate Swann
Group Chief Executive

Robert Moorhead
Group Finance Director

FOR THE YEAR ENDED 31 AUGUST 2009

£m	Note	2009	2008
Net cash inflow from operating activities	25	113	104
Investing activities			
Interest received		1	4
Proceeds on disposal of property, plant and equipment		-	3
Acquisition of businesses		-	(24)
Purchase of property, plant and equipment		(23)	(35)
Purchase of intangible assets		(5)	(4)
Net cash outflow from investing activities		(27)	(56)
Financing activities			
Interest paid		(1)	(1)
Dividend paid		(23)	(78)
Purchase of own shares for cancellation		-	(33)
Purchase of own shares for employee share schemes		(8)	(9)
Proceeds from borrowings		-	25
Repayments of borrowings		(25)	(9)
Repayments of obligations under finance leases		(4)	(3)
Net cash used in financing activities		(61)	(108)
Net increase / (decrease) in cash and cash equivalents in year		25	(60)
Opening net cash and cash equivalents		22	82
Closing net cash and cash equivalents		47	22

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS / (DEBT)

£m	Note	2009	2008
Net (debt) / funds at beginning of the year		(9)	64
Increase / (decrease) in cash and cash equivalents		25	(60)
Decrease / (increase) in debt		25	(16)
Net movement in finance leases		4	3
Net funds / (debt) at end of the year	23	45	(9)

FOR THE YEAR ENDED 31 AUGUST 2009

£m	2009	2008
Actuarial losses on defined benefit pension schemes (Note 5)	(11)	(10)
Tax on items taken directly to equity		
– deferred tax	–	1
Net expense recognised directly in equity	(11)	(9)
Profit for the year	63	59
Total recognised income and expense for the year	52	50

Total recognised income and expense for the year is fully attributable to the equity holders of the parent company.

GROUP RECONCILIATION OF MOVEMENTS IN EQUITY

FOR THE YEAR ENDED 31 AUGUST 2009

£m	Share capital	Capital redemption reserves	Revaluation reserve	ESOP reserve	Hedging and translation reserves	Other reserve ¹	Retained earnings	Total
Balance at 1 September 2007	37	–	4	(29)	(3)	(165)	383	227
Total recognised income and expense for the year	–	–	–	–	–	–	50	50
Recognition of share-based payments	–	–	–	–	–	–	6	6
Dividends paid	–	–	–	–	–	–	(78)	(78)
Employee share schemes	–	–	(1)	1	–	(14)	–	(14)
Purchase of own shares for cancellation	(2)	2	–	–	–	–	(33)	(33)
Profit realised on sale of previously revalued freehold property	–	–	(1)	–	–	–	1	–
Mark to market valuation	–	–	–	–	3	–	–	3
Balance at 1 September 2008	35	2	2	(28)	–	(179)	329	161
Total recognised income and expense for the year	–	–	–	–	–	–	52	52
Current tax on items taken directly to equity	–	–	–	–	–	–	1	1
Recognition of share-based payments	–	–	–	–	–	–	6	6
Dividends paid	–	–	–	–	–	–	(23)	(23)
Employee share schemes	–	–	–	–	–	(8)	–	(8)
Mark to market valuation	–	–	–	–	(1)	–	–	(1)
Balance at 31 August 2009	35	2	2	(28)	(1)	(187)	365	188

¹ The 'Other' reserve includes reserves created in relation to the historical capital reorganisation, proforma restatement and the demerger from Smiths News PLC.

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 23 of the Directors' Report and Business Review.

New Standards

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 1	Presentation of Financial Statements
Amendment to IAS 23	Borrowing Costs
Amendment to IAS 27	Consolidated and Separate Financial Statements
Amendment to IAS 32 and IAS 1	Puttable financial instruments and obligations arising on liquidation
Amendment to IFRS 2	Share-based Payments
Amendment to IFRS 3	Business Combinations
Amendment to IFRS 7 and IAS 39	Financial Instruments: Disclosures
IFRS 8	Operating Segments

The directors anticipate that the adoption of these Standards and Interpretations in future years will have no material impact on the Group financial statements.

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.

c) Retirement benefit costs

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

The cost of providing benefits for the main defined benefit scheme, WHSmith Pension Trust, and the 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 consolidated statement of recognised income and expense.

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, plus any costs directly attributable to the business combination. 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.

CONTINUED

1. ACCOUNTING POLICIES (CONTINUED)**Other intangible assets (continued)**

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 and long leasehold 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 the income statement 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 below 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.

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.

CONTINUED

1. ACCOUNTING POLICIES (CONTINUED)**k) Financial instruments (continued)**

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 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 5.

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 if 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 marketplace demand. Expectations will be revised each period until the actual liability arises, with any difference accounted for in the period in which the revision is made.

2. SEGMENTAL ANALYSIS OF RESULTS

For management purposes, the Group is currently organised into two operating divisions – High Street and Travel. These divisions are the basis on which the Group currently reports its primary business segment information. Prior to its disposal in 2004, USA Travel Retail was a separate business segment. This has been disclosed as a discontinued operation.

i) Segmental analysis by business segments

a) Group revenue

£m	2009	2008
Continuing operations:		
Travel	448	413
High Street	892	939
Group revenue	1,340	1,352

b) Group results

£m	2009	2008
Continuing operations:		
Travel	48	41
High Street	49	47
Trading profit	97	88
Unallocated costs	(14)	(14)
Group operating profit	83	74
Investment income	1	5
Finance costs	(2)	(3)
Income tax expense	(18)	(17)
Profit for the year	64	59

c) Balance sheet

£m	2009					2008				
	Travel	High Street	Continuing operations	Discontinued operations	Group	Travel	High Street	Continuing operations	Discontinued operations	Group
Assets										
Segment assets	119	317	436	–	436	110	346	456	–	456
Unallocated assets	–	–	58	–	58	–	–	32	–	32
Consolidated total assets	119	317	494	–	494	110	346	488	–	488
Liabilities										
Segment liabilities	(64)	(173)	(237)	(6)	(243)	(57)	(183)	(240)	(5)	(245)
Unallocated liabilities	–	–	(63)	–	(63)	–	–	(82)	–	(82)
Consolidated total liabilities	(64)	(173)	(300)	(6)	(306)	(57)	(183)	(322)	(5)	(327)
Net assets / (liabilities)	55	144	194	(6)	188	53	163	166	(5)	161

CONTINUED

2. SEGMENTAL ANALYSIS OF RESULTS (CONTINUED)

d) Other segmental items

£m	2009					2008				
	Travel	High Street	Continuing operations	Discontinued operations	Group	Travel	High Street	Continuing operations	Discontinued operations	Group
Capital additions	12	16	28	–	28	11	28	39	–	39
Depreciation and amortisation of non-current assets	(9)	(29)	(38)	–	(38)	(7)	(32)	(39)	–	(39)
Impairment losses	(1)	(2)	(3)	–	(3)	(1)	(2)	(3)	–	(3)

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

ii) Segmental analysis by geographical area

The total Group revenue and operating profits originate within Europe. The directors consider this to be one segment.

3. GROUP OPERATING PROFIT

£m	2009	2008
Turnover	1,340	1,352
Cost of sales	(685)	(720)
Gross profit	655	632
Distribution costs ¹	(496)	(479)
Administrative expenses	(81)	(84)
Other income ¹	5	5
Group operating profit	83	74

¹ Other income is profit attributable to property and the sale of plant and equipment. During the period there was a £3m impairment charge for property, plant and equipment and other intangible assets included in distribution costs (2008: £2m).

£m	2009	2008
Cost of inventories recognised as an expense	685	720
Write-down of inventories in the period	8	5
Depreciation and amounts written off property, plant and equipment	37	35
Amortisation and amounts written off intangible assets	4	7
Net operating lease charges		
– land and buildings	180	170
– equipment and vehicles	–	1
Other occupancy costs	58	55
Staff costs (Note 6)	202	194
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	0.1	0.2
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	0.2	0.3
Non-audit fees including taxation and other services	0.1	0.2
	0.3	0.5

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.

4. DISCONTINUED OPERATIONS – EXCEPTIONAL ITEMS

Exceptional items are material items of income or expense that are disclosed separately due to their nature or amount. They are disclosed and described separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group.

£m	2009	2008
Property provision – reversionary leases	(4)	–
Provision for discontinued operations	3	–
Exceptional items before tax	(1)	–
Attributable tax expense	–	–
Net exceptional loss attributable to discontinued operations	(1)	–

The Group has incurred a £1m exceptional charge relating to discontinued operations. A £4m exceptional charge was incurred arising from the crystallisation of contingent liabilities relating to reversionary property leases and a £3m exceptional credit was recognised from progress made on the winding up and disposal of the USA Travel business.

5. 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, WH Smith Retirement Savings Plan. The most significant scheme is WHSmith Pension Trust, which is described in Note 5 a) i).

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

£m	2009	2008
WHSmith Pension Trust	–	–
United News Shops Retirement Benefits Scheme	(2)	–
Retirement benefit obligation recognised in the balance sheet	(2)	–

a) Defined benefit pension scheme

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. During the year, the Group made a contribution of £10m to the WHSmith Pension Trust (2008: £10m) in accordance with the agreed pension deficit funding schedule. In September 2005, the Pension Trust Trustee adopted a new investment policy. The assets in the investment fund were restructured and 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. A revised deficit funding schedule of £11m (subject to indexation) over the next ten years has been agreed with the Trustee.

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

£m	2009	2008
Present value of the obligations	(717)	(662)
Fair value of plan assets	743	793
Surplus in the scheme	26	131
Amounts not recognised	(26)	(131)
Retirement benefit obligation recognised in the balance sheet	–	–

CONTINUED

5. RETIREMENT BENEFIT OBLIGATION (CONTINUED)

a) Defined benefit pension scheme (continued)

i) The WHSmith Pension Trust (continued)

The pension scheme is closed to further accrual and given the LDI policy adopted by the Pension Trustees, the present value of the economic benefits of the IAS 19 surplus in the pension scheme of £26m (2008: £131m) available on a reduction of future contributions is Enil (2008: Enil). As a result the Group has not recognised this IAS 19 surplus on the balance sheet.

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 principle long-term assumptions used in the actuarial valuation were:

%	2009	2008
Rate of increase in pension payments and deferred pensions	3.48	4.07
Discount rate	5.29	6.25
Inflation assumptions	3.48	4.07

The amounts recognised in the income statement were as follows:

£m	2009	2008
Current service cost	–	–
Interest cost	(41)	(36)
Expected return on scheme assets	40	36
	(1)	–

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 finance costs (Note 10). Actuarial gains and losses have been reported in the statement of recognised income and expense.

Total income / (expense) recognised in the statement of recognised income and expense ("SORIE"):

£m	2009	2008
Actuarial (losses) / gains	(114)	121
Amounts not recognised	105	(131)
	(9)	(10)

In addition, a £2m charge has been recognised in the SORIE in relation to actuarial losses in the year on the United News Shops Retirement Benefits Scheme.

The total cumulative actuarial gain recognised in the SORIE since the 'sectionalisation' of the scheme on demerger from Smith News PLC on 31 August 2006 is £4m (2008: gain of £13m).

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

£m	2009	2008
At 1 September	(662)	(657)
Current service cost	–	–
Interest cost	(41)	(36)
Actuarial (losses) / gains	(35)	11
Benefits paid	21	20
At 31 August	(717)	(662)

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

£m	2009	2008
At 1 September	793	657
Expected return on scheme assets ¹	40	36
Actuarial (losses) / gains	(79)	110
Contributions from the sponsoring companies	10	10
Benefits paid	(21)	(20)
At 31 August	743	793

¹ The actual return on scheme assets was a loss of £39m (2008: gain of £146m).

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

£m	2009	2008
Liquid cash funds	732	653
Inflation swaps	(32)	112
Equity call options	43	28
	743	793

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 2009 this was 5.12 per cent (2008: 5.10 per cent).

The mortality assumptions (in years) underlying the value of the accrued liabilities for both 2008 and 2009 are:

	2009		2008	
	Male	Female	Male	Female
Life expectancy at age 65				
Member currently aged 65	21.3	23.2	20.1	22.9
Member currently aged 45	23.2	25.0	21.4	24.1
Life expectancy at age 60				
Member currently aged 60	26.0	27.9	24.9	27.7
Member currently aged 45	27.5	29.4	25.9	28.7

The five year history of experience adjustments is as follows:

£m	2009	2008	2007	2006	2005
Present value of defined benefit obligations	(717)	(662)	(657)	(674)	(651)
Fair value of scheme assets	743	793	657	608	598
Surplus / (deficit) in the scheme	26	131	-	(66)	(53)
Experience adjustments on scheme liabilities					
Amount (£m)	26	14	22	(7)	(75)
Percentage of scheme liabilities (%)	(4)	(2)	(3)	1	11
Experience adjustments on scheme assets					
Amounts (£m)	(80)	110	1	(17)	48
Percentage of scheme assets (%)	(11)	14	-	(3)	8

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 2006 by independent actuaries.

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.

CONTINUED

5. RETIREMENT BENEFIT OBLIGATION (CONTINUED)**a) Defined benefit pension scheme (continued)****ii) United News Shops Retirement Benefits Scheme (continued)**

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

£m	2009	2008
Present value of the obligations	(5)	(4)
Fair value of plan assets	3	4
Retirement benefit obligation recognised in the balance sheet	(2)	-

During the year a £2m charge has been recognised in the statement of recognised income and expense in relation to actuarial losses 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 2009 (2008: £3m).

6. STAFF COSTS AND EMPLOYEES**a) Staff costs**

The aggregate remuneration of employees was:

£m	2009	2008
Wages and salaries	180	173
Social security	13	12
Net pension cost	3	3
Employee share schemes	6	6
Total Group	202	194

b) Employee numbers

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

Number	2009	2008
Total retailing	17,425	17,857
Support functions	34	34
Total Group	17,459	17,891

7. OPERATING LEASE COMMITMENTS

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

£m	2009	2008
Within one year	160	151
Within two to five years	553	463
In more than five years	326	286
	1,039	900

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 average lease length across the Group is six years split between High Street and Travel at seven and six years respectively. The total future external sublease payments to be received are £19m (2008: £26m).

In addition the Group leases various equipment and vehicles which have a total lease commitment of less than £1m (2008: 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 24.

8. FIXED CHARGES COVER

£m	2009	2008
Net finance charges / (income)	1	(2)
Net operating lease rentals	180	171
Total fixed charges	181	169
Profit before tax and exceptional items	82	76
Profit before tax, exceptional items and fixed charges	263	245
Fixed charges cover – times	1.5x	1.4x

9. INVESTMENT INCOME

£m	2009	2008
Interest on bank deposits	1	4
Interest from prior period tax overpayments	–	1
	1	5

10. FINANCE COSTS

£m	2009	2008
Interest payable on bank loans and overdrafts	1	1
Net charge on pension schemes (Note 5)	1	–
Unwinding of discount on provisions	–	1
Interest on obligations under finance leases	–	1
	2	3

11. INCOME TAX EXPENSE

£m	2009	2008
Tax on profit from continuing operations	22	22
<i>Blended standard rate of UK corporation tax 28% (2008: 29.17%)</i>		
Adjustment in respect of prior year UK corporation tax	(4)	(8)
Total current tax charge – continuing operations	18	14
Deferred tax – current year	–	3
Tax on profit – continuing operations	18	17
Tax on exceptional items	–	–
Tax on profit – continuing operations	18	17
<i>Effective tax rate on continuing activities</i>	22%	23%

Reconciliation of the taxation charge

£m	2009	2008
Tax on profit from continuing operations at standard rate of UK corporation tax 28% (2008: 29.17%)	23	22
Tax effect of items that are not deductible or not taxable in determining taxable profit	(1)	2
Tax rate differential	–	1
Adjustment in respect of prior years	(4)	(8)
Tax charge – continuing operations	18	17

The UK corporation tax rate fell to 28 per cent with effect from 1 April 2008 (previously 30 per cent).

CONTINUED

12. DIVIDENDS

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

£m	2009	2008
Dividends		
Interim of 5.4p per ordinary share (2008: 4.6p per ordinary share)	8	7
Final of 9.7p per ordinary share (2008: 8.1p per ordinary share)	15	14
Special interim dividend per ordinary share of nil pence (2008: 33p)	-	57
	23	78

The proposed dividend of 11.3p per share is not included as a liability in these financial statements and, subject to shareholder approval, will be paid on 4 February 2010 to shareholders on the register at the close of business on 8 January 2010.

13. EARNINGS PER SHARE**a) Earnings**

£m	2009			2008		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
Underlying earnings attributable to shareholders	64	-	64	59	-	59
Exceptional items net of related taxation	-	(1)	(1)	-	-	-
Earnings attributable to shareholders	64	(1)	63	59	-	59

b) Basic earnings per share

Pence	2009			2008		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
Underlying earnings per share (note i)	42.7	-	42.7	36.4	-	36.4
Exceptional items net of taxation	-	(0.7)	(0.7)	-	-	-
Earnings per share (note ii)	42.7	(0.7)	42.0	36.4	-	36.4

i) Underlying earnings per share have been calculated using profit after tax but before exceptional items.

ii) Basic earnings per share has been calculated using profit after tax and exceptional items.

c) Diluted earnings per share

Pence	2009			2008		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
Underlying earnings per share (note i)	41.3	-	41.3	35.3	-	35.3
Exceptional items net of taxation	-	(0.7)	(0.7)	-	-	-
Earnings per share (note ii)	41.3	(0.7)	40.6	35.3	-	35.3

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.

d) Weighted average share capital

Millions	2009	2008
Weighted average shares in issue for earnings per share	150	162
Add weighted average number of ordinary shares under option	5	5
Weighted average ordinary shares for diluted earnings per share	155	167

No adjustment is required to comparative earnings per share values as the special dividend of 33p per ordinary share and the share consolidation of 67 new ordinary shares for every 74 existing ordinary shares which occurred in the prior year, are effectively a repurchase at fair value.

14. GOODWILL

	£m
Cost	
At 1 September 2008	32
Additions	–
At 31 August 2009	32
Accumulated impairment	
At 1 September 2008	–
Impairment charge	–
At 31 August 2009	–
Net book value at 31 August 2009	32
Cost	
At 1 September 2007	15
Recognised on acquisition of businesses	17
At 31 August 2008	32
Accumulated impairment	
At 1 September 2007	–
Impairment charge	–
At 31 August 2008	–
Net book value at 31 August 2008	32

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

£m	2009	2008
High Street	11	11
Travel	21	21
	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 (2008: £nil). CGUs are comprised of the group of retail stores purchased on acquisitions.

The key assumptions for the value-in-use calculations include those regarding operating profit, discount rates and growth rates. The Group prepares cash flow forecasts derived from the most recent financial forecasts approved by management, and extrapolates cash flows for following years 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 post-tax (2008: 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.

CONTINUED

15. 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 2008	48
Additions	5
At 31 August 2009	53
Accumulated amortisation	
At 1 September 2008	25
Amortisation charge	4
At 31 August 2009	29
Net book value at 31 August 2009	24
Cost	
At 1 September 2007	38
Additions	4
Recognised on acquisition of businesses	6
At 31 August 2008	48
Accumulated amortisation	
At 1 September 2007	18
Amortisation charge	6
Impairment charge	1
At 31 August 2008	25
Net book value at 31 August 2008	23

16. PROPERTY, PLANT AND EQUIPMENT

£m	Land & Buildings				Total
	Freehold properties	Short-term leasehold	Fixtures & fittings	Equipment & vehicles	
Cost or valuation:					
At 1 September 2008	19	141	136	72	368
Additions	–	9	9	5	23
Disposals	–	(5)	(15)	(4)	(24)
At 31 August 2009	19	145	130	73	367
Accumulated depreciation:					
At 1 September 2008	6	70	79	36	191
Depreciation charge	1	10	12	11	34
Impairment charge	–	1	2	–	3
Disposals	–	(5)	(15)	(4)	(24)
At 31 August 2009	7	76	78	43	204
Net book value at 31 August 2009	12	69	52	30	163
Cost or valuation:					
At 1 September 2007	22	131	137	90	380
Additions	–	16	12	7	35
Acquisitions of businesses	–	–	3	1	4
Disposals	(3)	(6)	(16)	(26)	(51)
At 31 August 2008	19	141	136	72	368
Accumulated depreciation:					
At 1 September 2007	8	68	79	49	204
Depreciation charge	1	9	13	10	33
Impairment charge	–	–	2	–	2
Disposals	(3)	(7)	(15)	(23)	(48)
At 31 August 2008	6	70	79	36	191
Net book value at 31 August 2008	13	71	57	36	177

The net book value of finance leases contained within these balances is £5m at 31 August 2009 (31 August 2008: £8m).

CONTINUED

17. TRADE AND OTHER RECEIVABLES

£m	2009	2008
Current debtors		
Trade debtors	22	27
Other debtors	12	15
Prepayments and accrued income	22	24
	56	66
Non-current debtors		
Prepayments and accrued income	4	4
Total trade and other receivables	60	70

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

£m	2009	2008
Trade and other receivables gross	36	44
Of which:		
Amounts neither impaired nor past due on the reporting date	30	34
Amounts past due		
Less than one month old	3	4
Between one and three months old	1	2
Between three and six months old	1	4
Between six months and one year old	1	-
Allowance for doubtful debts	(2)	(2)
Trade and other receivables net carrying amount	34	42

An allowance has been made for estimated irrecoverable amounts from the sale of goods at 31 August 2009 of £2m (31 August 2008: £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.

18. TRADE AND OTHER PAYABLES – CURRENT

£m	2009	2008
Trade payables	97	89
Other tax and social security	22	23
Other creditors	60	66
Accruals and deferred income	63	61
	242	239

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 52 days (2008: 45 days). The directors consider that the carrying amount of trade and other payables approximates to their fair value.

19. OTHER NON-CURRENT LIABILITIES

£m	2009	2008
Other creditors	10	8

20. OBLIGATIONS UNDER FINANCE LEASES

	2009		2008	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
£m				
Amount payable under finance leases:				
Within one year	2	2	4	4
Within two to five years	–	–	2	2
After five years	–	–	–	–
Total	2	2	6	6
Less: future finance charges	–	–	–	–
Present value of lease obligations	2	2	6	6
Less: Amount due for settlement within 12 months (shown under current liabilities)	(2)	(2)	(4)	(4)
Amount due for settlement after 12 months	–	–	2	2

It is the Group's policy to lease certain fixtures and equipment under finance leases. All lease obligations are denominated in sterling. The average lease term is three to four years. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The fair value of the Group's lease obligations approximates their carrying amount.

21. PROVISIONS

£m	Property provision	Disposal provision	Total
At 1 September 2008	4	4	8
Charge / (credit) in the year	4	(3)	1
Utilised in year	(1)	–	(1)
At 31 August 2009	7	1	8

£m	Property provision	Disposal provision	Total
At 1 September 2007	6	4	10
Utilised in year	(3)	–	(3)
Unwinding of discount	1	–	1
At 31 August 2008	4	4	8

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

£m	2009	2008
Included in current liabilities	3	4
Included in non-current liabilities	5	4
	8	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.

CONTINUED

22. 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 period.

£m	Accelerated tax depreciation	Property provision	Lease incentives	Share-based payments	Retirement benefit obligations	Short-term timing differences	Total
At 1 September 2008	(10)	1	2	5	3	–	1
Charged to income	2	(1)	–	–	(2)	1	–
At 31 August 2009	(8)	–	2	5	1	1	1
At 1 September 2007	(12)	2	2	7	4	–	3
Charged to income	2	(1)	–	(3)	(1)	–	(3)
Charged to equity	–	–	–	1	–	–	1
At 31 August 2008	(10)	1	2	5	3	–	1

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	2009	2008
Deferred tax liabilities (non-current liabilities)	(8)	(10)
Deferred tax assets	9	11
	1	1

23. ANALYSIS OF NET FUNDS / (DEBT)

Movements in net funds / (debt) can be analysed as follows:

£m	2008	Cash flow	Non-cash	2009
Cash and cash equivalents	22	25	–	47
Debt				
– Revolving credit facility	(25)	25	–	–
Obligations under finance leases	(6)	4	–	(2)
Net (debt) / funds	(9)	54	–	45

£m	2007	Cash flow	Non-cash	2008
Cash and cash equivalents	82	(60)	–	22
Debt				
– Revolving credit facility	–	(25)	–	(25)
– Sterling floating rate	(9)	9	–	–
Obligations under finance leases	(9)	3	–	(6)
Net funds / (debt)	64	(73)	–	(9)

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.

At 31 August 2009, floating rate debt comprised the Group's utilisation of £nil (2008: £25m) of its five-year committed revolving credit facility of £90m. The revolving credit facility is due to mature on 26 June 2011. The utilisation is interest bearing at LIBOR plus 60 basis points. During the prior period in accordance with the terms of the loan notes the Group repaid the remaining unsecured loan notes, bearing interest at a rate of 100 basis points below six month LIBOR.

24. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

£m	2009	2008
Bank and other loans guaranteed	4	4

No amount has been included above for taxation that would arise in the event of certain international subsidiaries distributing the balance of their reserves.

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 2009 of £50m (2008: £64m). 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 £nil (2008: £nil).

25. NET CASH INFLOW FROM OPERATING ACTIVITIES

£m	2009	2008
Operating profit from continuing operations	83	74
Pension funding	(10)	(10)
Depreciation of property, plant and equipment	34	33
Impairment of property, plant and equipment	3	2
Amortisation of intangible assets	4	6
Impairment of intangible assets	-	1
Share-based payments	6	6
Increase in inventories	(4)	(3)
Decrease / (increase) in receivables	10	(10)
Increase in payables	5	15
Income taxes paid	(17)	(7)
Cash spend against provisions	(1)	(3)
Net cash inflow from operating activities	113	104

26. FINANCIAL INSTRUMENTS

Categories of financial instruments

£m	Carrying value	
	2009	2008
Financial assets		
Derivative instruments in designated hedge accounting relationships	1	2
Loans and receivables (including cash and cash equivalents) ¹	114	96
Financial liabilities		
Finance lease obligations	(2)	(6)
Amortised cost ²	(286)	(303)

¹ Included within loans and receivables are trade and other receivables, current tax assets and cash and cash equivalents.

² 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.

CONTINUED

26. FINANCIAL INSTRUMENTS (CONTINUED)**Risk management**

The Group's Treasury function seeks to reduce exposures to interest rate, foreign exchange and other financial risks, to ensure liquidity is available to meet the 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 Group's treasury policies and procedures are periodically reviewed and approved by the Audit Committee and are subject to regular Group Internal Audit review.

Capital risk

The Group's objectives when 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 provide returns to shareholders and benefits for other stakeholders, while optimising return to shareholders through an appropriate balance of debt and equity funding. The Group manages its capital structure and makes adjustments to it in light of changes to economic conditions and the strategic objectives of the Group.

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 and uncommitted facilities 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 maximise the return on surplus cash and also to utilise cash within the Group to reduce the costs of external short-term funding.

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

2009 (£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	273	–	1	–	274
Finance leases	2	–	–	–	2
Total cash flows	275	–	1	–	276

2008 (£m)	Due within 1 year	Due between 1 and 2 years	Due between 2 and 5 years	Due over 5 years	Total
Non-derivative financial liabilities					
Bank loans and overdrafts	25	–	–	–	25
Trade and other payables	262	–	1	–	263
Finance leases	4	2	–	–	6
Total cash flows	291	2	1	–	294

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's credit risk is primarily attributable to its trade and other receivables. 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 a 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 2009, the Group had drawn down £nil (2008: £25m) 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 and euro.

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 2009, the Group had no material un-hedged currency exposures.

The Group's euro exposure is principally operational and arises mainly through the ownership of a retail store in France and Ireland. 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	2009	2008
Fair value of derivative assets	1	2

At 31 August 2009, the total notional amount of outstanding forward foreign exchange contracts to which the Group has committed is US\$38m (2008: US\$52m). These instruments will be used to hedge cash flows occurring usually within one year of the balance sheet date. Gains totalling £5m (2008: £1m loss) have been transferred to both the income statement and inventories in respect of contracts that matured during the year ended 31 August 2009.

At 31 August 2009, the fair value loss on the Group's currency derivatives that are designated and effective as cash flow hedges amounted to £1m (2008: £3m gain).

Sensitivity analysis as at 31 August 2009

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 1.628/1 (2008: 1.821/1) and EUR/GBP 1.138/1 (2008: 1.241/1).
- Group debt and hedging activities remain constant, reflecting the positions at 31 August 2008 and 31 August 2009 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.

CONTINUED

26. FINANCIAL INSTRUMENTS (CONTINUED)

Sensitivity analysis as at 31 August 2009 (continued)

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

£m	2009		2008	
	Income gains / (loss)	Equity gains / (loss)	Income gains / (loss)	Equity gains / (loss)
GBP LIBOR/Base rate interest rates 1% increase	-	-	-	-
USD/GBP exchange rates 10% increase	-	(2)	-	(2)
EUR/GBP exchange rates 10% increase	-	-	-	-
GBP LIBOR/Base rate interest rates 1% decrease	-	-	-	-
USD/GBP exchange rates 10% decrease	-	3	-	3
EUR/GBP exchange rates 10% decrease	-	-	-	-

27. CALLED UP SHARE CAPITAL

a) Authorised

	2009		2008	
	Number of shares (millions)	Nominal value £m	Number of shares (millions)	Nominal value £m
Equity:				
Ordinary shares of 22 6/67p	272	60	272	60
Total	272	60	272	60

b) Allotted and fully paid

	2009		2008	
	Number of shares (millions)	Nominal value £m	Number of shares (millions)	Nominal value £m
Equity:				
Ordinary shares of 22 6/67p	157	35	157	35
Total	157	35	157	35

On 20 February 2008, shareholders approved at an Extraordinary General Meeting a share capital consolidation on the basis of 67 new ordinary shares for every 74 existing ordinary shares. This provided for all of the authorised ordinary shares of 20p (whether issued or unissued) to be consolidated into new ordinary shares of 22 6/67p, which became effective on 22 February 2008.

In the prior year the Company repurchased 692,756 of its own shares prior to the share consolidation and 8,159,447 post the share consolidation in the open market for an aggregate consideration of £33m.

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.

28. SHARE-BASED PAYMENTS

Summary of movements in awards and options

Number of shares	Sharesave Schemes	Executive Share Option Schemes	2008 MIP	2004 MIP	LTIPs	Total	Weighted average exercise price (pence)
Outstanding at 1 September 2008	1,187,234	4,785,143	4,298,179	724,897	2,059,022	13,054,475	143.47
Options and awards granted	254,189	1,415,153	378,242	–	843,635	2,891,219	203.87
Options and awards exercised	(6,766)	(2,016,149)	–	(724,897)	(888,876)	(3,636,688)	148.06
Options and awards lapsed	(121,481)	(33,241)	(753,818)	–	(237,954)	(1,146,494)	40.97
Outstanding at 31 August 2009	1,313,176	4,150,906	3,922,603	–	1,775,827	11,162,512	168.06
Exercisable at 31 August 2009	–	309,733	–	–	–	309,733	271.42
Outstanding at 1 September 2007	887,239	5,207,918	–	2,550,903	2,417,306	11,063,366	155.61
Options and awards granted	403,412	1,241,407	4,533,680	–	257,520	6,436,019	94.84
Options and awards exercised	(2,404)	(1,589,093)	–	(1,826,006)	(456,347)	(3,873,850)	103.73
Options and awards lapsed	(101,013)	(75,089)	(235,501)	–	(159,457)	(571,060)	96.81
Outstanding at 31 August 2008	1,187,234	4,785,143	4,298,179	724,897	2,059,022	13,054,475	143.47
Exercisable at 31 August 2008	–	726,898	–	36,810	–	763,708	247.75

Detail of movements in options and awards

2008 Management Investment Plan (2008 MIP)

Under the terms of the 2008 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 had invested. These awards will only vest and become exercisable if underlying performance targets are met.

Outstanding awards granted under the 2008 Management Investment Plan are as follows:

Date of grant	2009	2008	Exercise price (pence)	Exercise period
22 November 2007	3,524,906	4,278,724	Nil	Nov 2010 – Nov 2012
29 February 2008	19,455	19,455	Nil	Nov 2010 – Nov 2012
21 October 2008	378,242	–	Nil	Nov 2010 – Nov 2012
	3,922,603	4,298,179		

2004 Management Investment Plan (2004 MIP)

Under the terms of the 2004 Management Investment Plan, executive directors and key senior executives invested their own money to buy ordinary shares in WH Smith and were granted matching awards (in the form of nil cost options in both WH Smith PLC and Smiths News PLC) to acquire further ordinary shares in proportion to the amount they had invested.

Date of grant	Number of WH Smith PLC shares		Exercise price (pence)	Exercise period
	2009	2008		
3 November 2004	–	589,923	Nil	01.02.08 – 31.01.10
26 April 2005	–	134,974	Nil	01.02.08 – 31.01.10
	–	724,897		

CONTINUED

28. SHARE-BASED PAYMENTS (CONTINUED)

2004 Management Investment Plan (2004 MIP) (continued)

Date of grant	Number of Smiths News PLC shares		Exercise price (pence)	Exercise period
	2009	2008		
3 November 2004	–	17,756	Nil	01.02.08 – 31.01.10
	–	17,756		

As the performance conditions have been met, 75 per cent of an award became exercisable following the vesting date (31 January 2008) and 25 per cent became exercisable on 1 February 2009.

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
	2009	2008		
2 November 2005	–	666,249	Nil	09.10.08 – 02.11.15
9 February 2006	–	299,969	Nil	09.02.09 – 09.02.16
19 October 2006	671,856	832,468	Nil	19.10.09 – 19.10.16
26 April 2007	55,000	55,000	Nil	Apr 2010 – 26.04.17
17 October 2007	205,336	205,336	Nil	Oct 2010 – 17.10.17
21 October 2008	843,635	–	Nil	Oct 2011 – 21.10.18
	1,775,827	2,059,022		

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 2009 are as follows:

Date of grant	Number of shares		Exercise price (pence)	Exercise period
	2009	2008		
29 November 2006 (3 year)	530,513	597,950	295.20	01.02.10 – 31.07.10
29 November 2006 (5 year)	177,993	188,973	295.20	01.02.12 – 31.07.12
4 June 2008 (3 year)	244,189	284,150	335.60	01.08.11 – 31.01.12
4 June 2008 (5 year)	110,502	116,161	335.60	01.08.13 – 31.01.14
3 June 2009 (3 year)	185,716	–	387.00	01.08.12 – 31.01.13
3 June 2009 (5 year)	64,263	–	387.00	01.08.14 – 31.01.15
	1,313,176	1,187,234		

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 2009 are as follows:

Date of grant	Number of shares		Exercise price (pence)	Exercise period
	2009	2008		
25 February 1999	–	7,766	386.00	25.02.02 – 24.02.09
31 October 2000	–	26,628	286.00	31.10.03 – 30.10.10
1 May 2001	6,288	10,899	357.00	01.05.04 – 30.04.11
1 November 2001	49,459	77,677	318.00	01.11.04 – 31.10.11
5 November 2002	380	45,966	263.00	05.11.05 – 04.11.12
20 November 2003	19,782	31,499	250.00	20.11.06 – 19.11.13
3 November 2004	92,822	526,464	247.00	03.11.07 – 02.11.14
2 November 2005	134,703	1,574,291	268.00	02.11.08 – 01.11.15
20 April 2006	6,299	25,960	321.00	20.04.09 – 19.04.16
19 October 2006	1,201,428	1,233,401	340.00	19.10.09 – 18.10.16
26 April 2007	10,756	10,756	453.25	26.04.10 – 25.04.17
17 October 2007	1,192,984	1,192,984	381.00	17.10.10 – 16.10.17
22 April 2008	20,852	20,852	387.25	22.04.11 – 21.04.18
21 October 2008	1,415,153	–	347.00	21.10.11 – 20.10.18
	4,150,906	4,785,143		

Fair value information

£m	2009	2008
Weighted average share price at date of exercise of share options exercised during period – pence	389.70	386.85
Weighted average remaining contractual life at end of period – years	6	6

Share options and awards granted

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

£m	2009	2008
	6	14

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:

	2009	2008
Share price – pence	347 – 449	383 – 400
Exercise price – pence	347 – 387	335.6 – 387.3
Expected volatility – per cent	35.72 – 35.80	29.80 – 34.39
Expected life – years	3.5 – 5.5	3.5 – 5.5
Risk free rate – per cent	2.21 – 4.23	4.48 – 5.04
Dividend yield – per cent	3.61 – 4.12	2.9 – 3.1
Weighted average fair value of options – pence	93.34	116.29

CONTINUED

28. SHARE-BASED PAYMENTS (CONTINUED)**Share options and awards granted (continued)**

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:

	2009	2008
Share price – pence	387.75	316.75 – 390.75
Exercise price – pence	Nil	Nil
Expected volatility – per cent	31.8	27.2
Expected life – years	3.0	3.0
Risk free rate – per cent	3.78	4.3 – 5.0
Dividend yield – per cent	3.47	2.5
Weighted average fair value of options – pence	350.35	244.44

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

29. RELATED PARTY TRANSACTIONS

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

Remuneration of key management personnel

The remuneration of the executive and non-executive directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'. Further information about the remuneration of individual directors is provided in the Remuneration Report.

£'000	2009	2008
Short-term employee benefits	2,048	2,543
Post employment benefits	336	215
Share-based payments	2,647	2,278
	5,031	5,036

There are no other transactions with directors.

30. POST BALANCE SHEET EVENT

On 15 October 2009, the Company announced its intention to return up to £35m of cash to shareholders through a rolling share buyback programme.

31. PRINCIPAL COMPANIES

The principal companies included within the financial statements, which are all wholly owned, are disclosed below:

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
UNS Hospitals Limited	England and Wales
WH Smith France S.A.S.	France

We have audited the individual Company financial statements of WH Smith PLC for the year ended 31 August 2009 which comprise the individual 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 sections 495, 496 and 497 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 individual Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the individual 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 individual 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.

Opinion on financial statements

In our opinion the individual Company financial statements:

- give a true and fair view of the state of the individual Company's affairs as at 31 August 2009;
- 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 information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the individual 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 individual Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of WH Smith PLC for the year ended 31 August 2009 and on the information in the Remuneration Report that is described as having been audited.

Ian Waller (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
15 October 2009

AS AT 31 AUGUST 2009

£m	Note	2009	2008
Fixed assets			
Investments	3	357	357
Total fixed assets		357	357
Current assets		-	-
Current liabilities			
Creditors – amounts due within one year	4	(151)	(128)
Net current liabilities		(151)	(128)
Total net assets		206	229
Capital and reserves			
Called up share capital	7	35	35
Capital redemption reserve	8	2	2
Profit and loss account	8	169	192
Total equity		206	229

The financial statements of WH Smith PLC, registered number 5202036, were approved by the Board of Directors on 15 October 2009.

Kate Swann
Group Chief Executive

Robert Moorhead
Group Finance Director

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.

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 £nil (2008: £nil). 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. CREDITORS – AMOUNTS DUE WITHIN ONE YEAR

£m	2009	2008
Amounts owed to subsidiary undertakings	151	128
	151	128

5. DIVIDENDS

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

£m	2009	2008
Dividends		
Interim of 5.4p per ordinary share (2008: 4.6p per ordinary share)	8	7
Final of 9.7p per ordinary share (2008: 8.1p per ordinary share)	15	14
Special interim dividend per ordinary share of nil pence (2008: 33p)	-	57
	23	78

The proposed dividend of 11.3p per share is not included as a liability in these financial statements and, subject to shareholder approval, will be paid on 4 February 2010 to shareholders on the register at the close of business on 8 January 2010.

6. CONTINGENT LIABILITIES

Contingent liabilities of £2m (2008: £nil) are in relation to insurance standby letters of credit.

CONTINUED

7. CALLED UP SHARE CAPITAL

a) Authorised

	2009		2008	
	Number of shares (millions)	Nominal value £m	Number of shares (millions)	Nominal value £m
Equity:				
Ordinary shares of 22 6/67p	272	60	272	60
Total	272	60	272	60

b) Allotted and fully paid

	2009		2008	
	Number of shares (millions)	Nominal value £m	Number of shares (millions)	Nominal value £m
Equity:				
Ordinary shares of 22 6/67p	157	35	157	35
Total	157	35	157	35

On 20 February 2008, shareholders approved at an Extraordinary General Meeting a share capital consolidation on the basis of 67 new ordinary shares for every 74 existing ordinary shares. This provided for all of the authorised ordinary shares of 20p (whether issued or unissued) to be consolidated into new ordinary shares of 22 6/67p, which became effective on 22 February 2008.

In the prior year the Company repurchased 692,756 of its own shares prior to the share consolidation and 8,159,447 post the share consolidation in the open market for an aggregate consideration of £33m.

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.

8. RESERVES

£m	Share capital	Capital redemption reserve	Profit and loss account	Total
Balance at 1 September 2008	35	2	192	229
Equity dividends paid during the period	–	–	(23)	(23)
Balance at 31 August 2009	35	2	169	206

9. POST BALANCE SHEET EVENT

On 15 October 2009, the Company announced its intention to return up to £35m of cash to shareholders through a rolling share buyback programme.

GROUP INCOME STATEMENT

£m	31 August 2009	31 August 2008	31 August 2007	31 August 2006	31 August 2005
Continuing operations					
Revenue	1,340	1,352	1,299	1,340	1,423
Group operating profit before exceptional items	83	74	67	60	47
Exceptional operating items	-	-	10	(7)	-
Group operating profit	83	74	77	53	47
Net finance (charges) / income	(1)	2	(1)	(9)	(8)
Profit before tax	82	76	76	44	39
Income tax expense	(18)	(17)	(16)	(12)	(9)
Profit after tax from continuing operations	64	59	60	32	30
Loss from discontinued operations	(1)	-	-	-	(8)
Profit for the period	63	59	60	32	22
Underlying earnings per share					
- Basic - continuing operations	42.7p	36.4p	30.3p	23.8p	16.9p
- Basic	42.7p	36.4p	30.3p	23.8p	16.9p
- Diluted	41.3p	35.3p	29.3p	23.3p	16.8p
Earnings per share					
Basic - continuing operations	42.7p	36.4p	34.3p	18.6p	16.9p
Basic	42.0p	36.4p	34.3p	18.6p	12.4p
Diluted	40.6p	35.3p	33.1p	18.2p	12.3p
Tax rate* - continuing operations	22%	23%	20%	20%	23%

* before exceptional items

SEGMENTAL ANALYSIS OF GROUP REVENUE

£m	31 August 2009	31 August 2008	31 August 2007	31 August 2006	31 August 2005
High Street	892	939	961	1,021	1,112
Travel	448	413	338	319	311
Group revenue	1,340	1,352	1,299	1,340	1,423

SEGMENTAL ANALYSIS OF GROUP OPERATING PROFIT

£m	31 August 2009	31 August 2008	31 August 2007	31 August 2006	31 August 2005
Continuing operations:					
High Street	49	47	44	42	37
Travel	48	41	36	31	25
Trading profit	97	88	80	73	62
Unallocated costs	(14)	(14)	(13)	(13)	(15)
Group operating profit before exceptional items	83	74	67	60	47
Exceptional items	-	-	10	(7)	-
Group operating profit	83	74	77	53	47

CONTINUED

GROUP BALANCE SHEET

£m	31 August 2009	31 August 2008	31 August 2007	31 August 2006	31 August 2005
Non-current assets					
Goodwill and other intangible assets	56	55	35	35	29
Property, plant and equipment	163	177	176	184	197
Deferred tax assets	9	11	15	29	38
Trade and other receivables	4	4	5	–	16
Total non-current assets	232	247	231	248	280
Current assets	262	241	286	278	262
Total assets	494	488	517	526	542
Current liabilities	(281)	(303)	(261)	(255)	(296)
Non-current liabilities					
Retirement benefit obligation	(2)	–	–	(66)	(60)
Other non-current liabilities	(23)	(24)	(29)	(37)	(81)
Total liabilities	(306)	(327)	(290)	(358)	(437)
Total net assets	188	161	227	168	105

GROUP CASH FLOW STATEMENT

£m	12 months to				
	31 August 2009	31 August 2008	31 August 2007	31 August 2006	31 August 2005
Cash flow from operating activities					
Generated from operating activities	130	111	78	84	(25)
Taxation (paid) / received	(17)	(7)	5	(2)	2
Cash flow from operating activities	113	104	83	82	(23)
Investing activities					
Interest received	1	4	5	2	4
Acquisitions and disposals of subsidiaries	–	(24)	(3)	8	212
Disposal of property, plant and equipment	–	3	2	9	2
Capital expenditure	(28)	(39)	(32)	(29)	(30)
Net cash from investing activities	(27)	(56)	(28)	(10)	188
Financing activities					
Interest paid	(1)	(1)	(2)	(7)	(6)
Dividend paid	(23)	(78)	(17)	(15)	(11)
Non-equity dividend paid	–	–	–	–	(143)
(Purchase) / issue of shares for employee share schemes	(8)	(9)	(12)	4	(12)
Repurchase of own shares	–	(33)	–	(3)	(62)
(Decrease) / increase in debt	(29)	13	(7)	(80)	58
Derivative cash movements	–	–	(1)	(1)	–
Other financing	–	–	–	57	(1)
Net cash used in financing activities	(61)	(108)	(39)	(45)	(177)
Net increase / (decrease) in cash and cash equivalents – continuing operations	25	(60)	19	19	(2)
Net (decrease) / increase in cash and cash equivalents – discontinued operations	–	–	(3)	8	(10)
Net increase / (decrease) in cash and cash equivalents	25	(60)	16	27	(12)

GROUP CASH FLOW STATEMENT (CONTINUED)
Analysis of net funds movement

£m	12 months to				
	31 August 2009	31 August 2008	31 August 2007	31 August 2006	31 August 2005
Operating profit before exceptional items	83	74	67	60	47
Share-based payments	6	6	6	6	4
Profit on disposal of property, plant and equipment	-	-	(2)	(5)	-
Depreciation, amortisation and other amounts written off fixed assets	41	42	41	37	41
Movement in working capital	11	2	9	9	(8)
Net interest receivable / (payable) ¹	-	2	2	(5)	(2)
Capital expenditure	(28)	(39)	(32)	(29)	(30)
Tax paid (before receipt of tax refund)	(23)	(21)	(8)	(2)	(2)
Provisions	(1)	(3)	(2)	(3)	(6)
Free cash flow (before dividends and investment activity)	89	63	81	68	44
Dividends	(23)	(78)	(17)	(15)	(11)
Non-equity dividend paid	-	-	-	-	(138)
Pension funding	(10)	(10)	(35)	(12)	(90)
Premium on issue of shares	-	-	-	4	2
Sale and leaseback and disposal of fixed asset proceeds	-	3	2	9	2
Net disposals proceeds of subsidiaries	-	-	(3)	8	212
Tax refund and associated interest received	6	15	14	-	-
Acquisitions	-	(24)	-	-	-
(Purchase) / issue of shares for employee share schemes	(8)	(9)	(12)	(10)	(12)
Repurchase of own shares	-	(33)	-	-	(62)
Corporate advisory costs	-	-	-	-	(9)
Cash outflow relating to exceptional operating items	-	-	(6)	(8)	-
Bank fees and derivative cash movements	-	-	(1)	(1)	(2)
Net finance lease movements	-	-	(1)	-	(12)
Intercompany settlement on demerger	-	-	-	57	(8)
Net funds movement	54	(73)	22	100	(84)
Opening net (debt) / funds	(9)	64	42	(58)	26
Closing net funds / (debt)	45	(9)	64	42	(58)

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

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 27 January 2010 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 and PIN as detailed in your email notification.

FORM OF PROXY

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 25 January 2010, 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, Shareholder Reference Number 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 25 January 2010, 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.

REGISTRARS

On Monday 28 September 2009 the Company changed its registrar from Equiniti to Computershare Investor Services PLC. All enquiries relating to shareholdings should be addressed to the registrar as follows:

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

Shareholder Helpline 0871 495 0100*

A textphone facility for shareholders with hearing difficulties is available by telephoning 0870 702 0005. In addition, Computershare provide a range of shareholder information online at www.investorcentre.co.uk

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-uk.computershare.com/investor and enter your Shareholder Reference Number and Company Code, WHS. This information can be found on your Form of Proxy or email notification.

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

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-uk.computershare.com/investor.

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 2009	Half-year end	28 February 2010
Results announced	15 October 2009	Interim results announced	April 2010
Annual Report posted	November 2009	Interim dividend ex-dividend date	May 2010
Interim Management Statement	November 2009	Interim dividend record date	May 2010
Final dividend ex-dividend date	6 January 2010	Interim dividend payment date	June 2010
Final dividend record date	8 January 2010	Interim Management Statement	July 2010
Christmas trading statement	January 2010	Financial year end	31 August 2010
AGM	27 January 2010	Results announced	October 2010
Final dividend payment date	4 February 2010		

The dividend dates shown above are in respect of the Company's ordinary shares of 22⁶/₆₇p.

SHARE DEALING 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 Shareholder Reference Number to hand when making this call. This can be found on your Form of Proxy or email notification.

JPMorgan Cazenove provides a postal share dealing service for private investors who wish to buy or sell the Company's shares. Further details are available from JPMorgan Cazenove, telephone 020 7155 5155.

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

SHAREHOLDER SECURITY

Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount or offers of free reports about the Company. Details of any share dealing facilities that the Company endorses will be included in the Company's mailings or on our website. More detailed information can be found at fsa.gov.uk/consumer

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 22⁶/₆₇p per ordinary share.

CONTINUED

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 2004, the original tax base cost of your ordinary shares of 55⁵/₈p (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 21³/₈p and 'C' shares resulting from the capital reorganisation.

The cost of your shareholding of ordinary shares of 21³/₈p is calculated by multiplying the original base cost of your ordinary shares of 55⁵/₈p (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 55⁵/₈p and redeemable 'B' shares resulting from the capital reorganisation.

The cost of your shareholding of ordinary shares of 55⁵/₈p 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.

The following definitions apply throughout this report unless the context requires otherwise:

'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.



This report is printed utilising vegetable based inks on Hello Silk. Both mill and printer are Environmental accredited with ISO 14001 and Forest Stewardship Council (FSC) chain of custody certified.

Designed and produced by Wardour.
www.wardour.co.uk



WH SMITH PLC

Greenbridge Road
Swindon, Wiltshire, SN3 3RX
United Kingdom
T 01793 616161
F 01793 562560
W www.whsmithplc.co.uk

CORPORATE RESPONSIBILITY

W www.whsmithplc.co.uk/cr

INVESTOR RELATIONS

T 020 7851 8820
W www.whsmithplc.co.uk/ir

MEDIA RELATIONS

T 020 7851 8850
W www.whsmithplc.co.uk/media

RECRUITMENT

W www.whsmithcareers.co.uk

CUSTOMER SERVICE

Freepost SCE4410
Swindon, Wiltshire, SN3 3XS
United Kingdom
T 0871 770 4444
E customer.relations@whsmith.co.uk

WHSMITH HIGH STREET

Greenbridge Road
Swindon, Wiltshire, SN3 3LD
United Kingdom
T 01793 616161
F 01793 562560
W www.whsmith.co.uk

WHSMITH TRAVEL

3rd Floor, 180 Wardour Street
London, W1F 8FY
United Kingdom
T 020 7851 8800
F 020 7851 8847
W www.whsmithplc.co.uk