

17 October 2002

**WH SMITH PLC
PRELIMINARY RESULTS ANNOUNCEMENT
FOR THE TWELVE MONTHS ENDED 31 AUGUST 2002**

KEY POINTS

Total sales up 7% to £2.9 billion

- UK Retail sales up 6% to £1,501m
- Publishing sales up 5% to £138m
- News Distribution sales up 4% to £1,069m
- ASPAC proforma sales up 7% to £138m
- US Travel Retail sales down 12% to £216m

Profit before tax, goodwill and exceptional items down 8% to £122m

- UK Retail profits up 7% to £97m
- Publishing profits up 19% to £19m
- News Distribution profits up 17% to £27m
- ASPAC profits of £5m
- US Travel Retail trading losses of £16m

Exceptional charges of £28m largely reflect asset impairment in the US £27m

EPS before exceptional items and goodwill down 7% to 34.6p

Final dividend maintained at 13p (Total dividend for the year unchanged at 19p)

GROUP CHIEF EXECUTIVE'S COMMENTS

Commenting on the results, Richard Handover, Group Chief Executive said:

“Strong performance and continued operational progress across the Group has been overshadowed by a material loss in the US business. Profits excluding the US are up 13% to £138m.”

“UK Retail has had its fifth consecutive year of profit growth. Market share gains were made in key categories. The continuing focus on improving the customer offer, driving internal efficiencies and delivering new store growth is now providing real momentum.”

“Hodder Headline has had another successful year and News Distribution has recovered strongly. Our ASPAC retail businesses in Australia and New Zealand have made a good first time contribution following their acquisition in May, 2001.”

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“The US Travel business has had a very difficult year due to severe market conditions. Nevertheless, management action has been taken to reduce the extent of the losses.”

“The continued focus on operational improvements that are being made across the Group and the prospects of recovery in the US, mean we remain optimistic about our future trading prospects.”

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CHIEF EXECUTIVE'S REVIEW

OVERVIEW

The UK Retail, Publishing, News Distribution and ASPAC Retail businesses have all performed well during the year and as a result, profit before tax, exceptional items and goodwill amortisation for the Group excluding the US Travel business is up 13% to £138m. This good performance has been overshadowed by a disappointing result from the US, which has had a significant negative impact on the Group's overall performance.

UK RETAIL

The UK Retail business has had its fifth consecutive year of profit growth with like for like sales up 4%.

A continued focus on differentiation of product and customer offer, saw market share gains across all key categories with, in particular, an increase in book market share of more than 0.5 percentage points.

For the year, gross margin was held broadly flat despite the 0.7 percentage points fall in the first half of the year. A significant improvement in the gross margin in the second half of the year of 0.7 percentage points was driven by deliberate management action to focus on driving contribution through better initial purchase margins of more profitable products and through more focussed promotions for example the 2 for £10 book promotion. The latter part of the year also saw a continued recovery in stationery sales following a disappointing first six months. Management will continue to focus on driving the sales of the more profitable products.

Significant capital investment of £46m has been made in the business in the year, including the ongoing implementation of a new systems infrastructure, Retek, which will provide a platform for further growth. For the second year in succession, retail space was increased by 2% with the addition of 22 new stores including six of the larger 'edge of town' format. This rate of expansion will continue in 2002/03. Alongside this space growth, UK Retail has continued with its store refurbishment programme. Nearly 300 stores have been refurbished since 1996/97 with 40 more planned for the new financial year.

ASPAC RETAIL

ASPAC Retail, in its first full year following acquisition, has traded well with a particularly strong result in New Zealand. Two WHSmith branded stores were opened in Sydney in the year and another is due to open in Canberra. The success of these test stores will determine the potential for future store expansion in Australia.

US TRAVEL RETAIL

The US Travel business incurred material losses as a result of the severe deterioration in travel market conditions following September 11th, exacerbated by the continued slowdown in the US economy. Like for like sales declined by 13% and, in a highly operationally geared business such as this (with the major elements of the cost base being largely fixed), the result was a rapid move from profit to loss.

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Action has been taken to control the fixed cost base as far as practicable, withdrawing from loss making Hotel stores where possible and minimising capital expenditure. However, a return to profitability is dependent on recovery in passenger volumes in airports and occupancy levels in hotels. Although this recovery will occur, the pace remains uncertain, but we expect a material reduction in losses for the current year. To equip ourselves best to benefit from the upturn when it comes, we have restructured the management of the business into separately focussed Airport and Hotel teams.

PUBLISHING

Hodder Headline had another excellent year and continues to gain market share in key markets. The consumer division had a particularly strong second half and market share in UK fiction is now up to 17%. Best selling titles included books by Jean Auel, Martina Cole, Wendy Holden, Stephen King and James Patterson. The education division also had a good performance and market share in the secondary education market has increased to 19%. Future prospects for the Hodder educational publishing division have been further strengthened by the acquisition of the John Murray and Robert Gibson. These well-established imprints will complement the existing business and enhance Hodder's strong market positions.

NEWS DISTRIBUTION

News Distribution also had a good year. The new management team has focussed on raising the standard of service to its retail customers and strengthening publisher relationships. The benefits of this focus have been borne out both by improved customer satisfaction and some small contract gains in the year. At the same time, the benefits of our investment in the SAP computer system implemented in 2001 are now driving cost efficiencies, with waste levels down by 40% year on year.

PENSIONS

In common with many companies, WHSmith is suffering from the effect of weak stockmarkets on its defined benefit pension funds. The adverse effect to the company is mitigated by the decision we made 7 years ago to close the main scheme to new entrants, but there will nevertheless be a substantial adverse impact on cash flow in 2002/03, during which we expect company contributions to rise from £4m in 2001/02 to nearly £20m. In addition, there will be a material impact on reported profits. In 2001/02, under SSAP 24, there was a nil pension charge. On the adoption of FRS17, 2001/02 will be restated to reflect a £5m charge and, in 2002/03, under FRS17, this charge will increase to £16m.

DIVIDEND

Despite the fall in Group profits in 2002 and the material increase in the pension charge, which will follow the adoption of FRS17 in 2002/03, the Board is recommending that the dividend should be maintained – a strong signal of our confidence in the potential of the business.

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CURRENT TRADING

In the 6 weeks to 12 October 2002, total UK Retail like for like sales are up 1% with the high gross margin categories, books and stationery up 2% and sales of lower margin categories showing declines versus a strong promotion-driven sales performance in 2001/02. As a consequence, gross margin in the period is 1 percentage point higher than last year, continuing the trend in the second half of 2001/02.

In the US Travel business, like for like sales are up 13% with hotels up 8% and airports up 15%. On a two-year view, the US business is down 15% on a comparable basis. ASPAC Retail's like for like sales for the period are up 7%.

News Distribution's comparable sales are up 2% and Publishing's sales are up 8%.

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FINANCIAL REVIEW

OVERVIEW

The financial performance of all the businesses with the exception of the US travel business has been strong. UK Retail had another year of sales and profit growth. Hodder Headline has produced another good result and News Distribution has rebounded strongly after a disappointing performance in the previous year. In its first full year following acquisition, the ASPAC retail business has traded ahead of expectations.

The US travel business was severely impacted following September 11th and recovery, particularly in the hotel businesses, has been slower than anticipated. This has had a material effect on overall group profitability.

Earnings per share were 21.1p whilst adjusted earnings before exceptional items and amortisation of goodwill were 34.6p.

The company generated £39m of free cash flow and the balance sheet remains robust.

In common with many companies, the financial condition of the Company's defined benefit pension schemes has deteriorated with the substantial world-wide decline in the value of equities. This will have a material effect in the coming year on the Company's reported profits and cashflows. A full explanation of the anticipated impact is given in this Review and its associated Appendix.

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Trading results

The trading results can be summarised as follows:

£m	2002	2001	Growth %	Comparable Sales Growth %
Sales				
UK Retailing	1,501	1,415	6%	4%
International Retailing	354	284		
Total Retailing	1,855	1,699	9%	2%
Publishing ^{1 2}	138	131	5%	4%
WHSmith News Distribution ¹	1,069	1,024	4%	4%
Internal Sales	(126)	(119)		
Total	2,936	2,735	7%	4%
Operating profit				
UK Retailing	97	91	7%	
International Retailing	(11)	9		
Total Retailing	86	100	-14%	
Publishing ³	19	16	19%	
WHSmith News Distribution ⁴	27	23	17%	
Total Trading Profit	132	139	-5%	
Support Costs	(14)	(12)	-17%	
Internal Rents	4	3	33%	
Total Operating Profit	122	130	-6%	
Exceptional Items	(28)	(16)	-75%	
Goodwill amortisation	(5)	(3)	67%	
Total	89	111	-20%	

¹ includes sales to other WHS businesses

² includes Helicon sales £1m (2001; £3m)

³ includes Helicon loss of £1m (2001; £2m)

⁴ includes Connect2U loss of £2m (2001; £3m)

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RETAILING

The results for retailing businesses comprise:

£m	2002	2001	Growth %	Comparable Sales Growth %
Sales				
High Street	1,189	1,120	6%	4%
UK Travel Retail	306	287	7%	4%
WHSmith Online	6	8	-27%	-27%
UK Retailing	1,501	1,415	6%	4%
USA Travel Retail	216	245	-12%	-13%
ASPAC Retail	138	39	-	-
International Retailing	354	284	-	-
Total Retailing	1,855	1,699	9%	2%
Operating profit				
High Street	79	77	3%	
UK Travel Retail	21	20	5%	
WHSmith Online	(3)	(6)	50%	
UK Retailing	97	91	7%	
USA Travel Retail	(16)	11		
ASPAC Retail	5	(2)		
International Retailing	(11)	9		
Total Retailing	86	100	-14%	

UK Retailing

UK Retail sales grew by 6% to £1,501m (2001 - £1,415m), with like for like sales up by 4%.

The business is continuing to focus on improving the retail offer through product differentiation where relevant, efficiency improvements in both supply chain management and store operations and finally through a commitment to new store openings and refurbishment of the existing portfolio.

The High Street business increased sales by 6% to £1,189m, up 4% on a like for like basis. Book sales grew by 5%, with a very strong performance in July and August as a result of a 2 for £10 book promotion. Stationery sales grew by 3% with a much improved performance in the second half of the year. News and Express categories grew by 6%, with magazines up by 7% offsetting the continuing decline in phonecard sales. Total entertainment sales grew by 11% with particularly strong performances from multimedia and DVDs. Own brand and exclusive sales grew by 15% and these now represent 16% of the sales mix.

As a result of these strong sales performances, market share gains were achieved in the majority of key categories with books share increasing by over 0.5 percentage points (source: Booktrack).

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UK Travel Retail grew sales by 7% to £306m and were up by 4% on a like for like basis. Sales growth has nevertheless been slightly lower than our expectations at the start of the year due to the impact of September 11th on volumes in London airports and stations.

The Online sales performance was down year on year, however higher intake margins due to sourcing from our main UK warehouse at Swindon and restructuring of the fixed cost base meant overall costs were £3m lower.

The strong sales performance across UK Retail resulted in a £31m increase in gross contribution, with a small 0.2% decline in the gross margin percentage being due to the strong sales performance from the lower margin entertainment category, particularly in the first half of the year.

Total expenses as a proportion of sales declined by 0.3 percentage points due to good cost control in the second half of the year. As a consequence, overall net margin for the UK Retail business increased by 0.1 percentage points to 6.5%.

We have now implemented two of the three stages of the new systems platform in the UK retail business, Retek. The problems experienced in the run up to Christmas, following the implementation of the Warehouse Management System in spring 2001 have now been resolved. The Sales Forecasting System was implemented in April 2002 and is beginning to have a beneficial impact on availability within store. The final stage, the Stock Replenishment and Merchandising System, has completed its build phase and is now in test, although it will not be implemented until next summer.

The UK Retail business now operates from 736 stores which occupy 3.3 million square feet. 22 new stores were opened in the year including six edge of town stores (Kinnaird Park, Fosse Park, Greenford, Tamworth Venture Park, Manchester West One and Fforestfach) and one large destination store in Belfast.

US Travel Retail

The US Travel Retail business has had a very difficult year due to the impact of September 11th and the economic downturn in the US. Sales decreased by 12% to £216m and were down by 13% on a like for like basis. Sales in the airport business declined by 8% on a like for like basis, due to lower enplanements, and were down by 19% in the hotels business due to low hotel occupancy rates.

Gross contribution decreased by £26m and gross margins fell by 4.1 percentage points largely due to product mix movements towards lower margin product categories in both businesses.

As a result of action taken to reduce the fixed cost base, and in particular the fixed rental commitments in airport stores, overall costs, excluding depreciation, decreased by £2m. An increase in administration costs of £4m was offset by a reduction in rent and staff costs of £6m. The increase in administration costs included £2m of one-off costs relating to restructuring and legal costs as a result of the re-engineering of the business. 39 hotel stores operated on short-term lease arrangements were closed during the year, leaving 354 remaining hotel stores and 174 airport stores. Depreciation increased by £3m as a result of investment prior to September 11th.

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Overall cost increases were therefore contained to £1m but, as a result of the sales and contribution decline, the business has suffered a material reduction in profitability and a £16m loss was incurred in the year.

ASPAC Retail

In its first full year since the acquisition of the operations in Australia and New Zealand, ASPAC Retail's sales grew on a proforma basis by 7% to £138m, up 7% on a like for like basis. Gross contribution increased by £5m with gross margins improving by 1.1 percentage points. Good cost control also improved net margins to 3.8%, pushing profits ahead by £4m to £5m on a proforma basis.

The business consists of retail operations in New Zealand and Australia, under the Whitcoulls and Angus and Robertson brands respectively, and travel stores in Hong Kong, Singapore and Australia. In addition, 3 WHSmith format stores have been opened on a trial basis in Australia.

Publishing

Publishing has had another successful year. Sales increased by 5% to £138m (2001 - £131m) with a particularly strong performance in the second half, which showed a 16% improvement. Internal sales increased by £3m to £19m (2001 - £16m) due mainly to effect of sales to our Australia and New Zealand businesses being classified as internal following the ASPAC acquisition.

Gross contribution increased by £3m with the gross contribution percentage broadly level year on year. Operating costs were flat and therefore profits increased by £3m to £19m. Overall net margin increased to 13.8% (2001 - 12.2%).

Following the acquisition of the John Murray business in June for £17m, £2m of exceptional cost relating to reorganisation has been incurred. Post acquisition profits were £0.5m.

On 31 August, the Robert Gibson education publishing business was acquired for £2m. No post acquisition profits or exceptional costs on acquisition have arisen.

During the year, Helicon Publishing was sold. Trading losses, including the net cost of exit, were £1m (2001 - £2m loss).

WHSmith News Distribution

Sales increased by 4% to £1,069m (2001 - £1,024m). Newspaper sales increased by 7% following cover prices rises earlier in the year. Magazine sales increased by 3%, and partworks and one shots were up by 30%. Phonecard sales decreased by 30%. Overall sales included £107m (2001 - £103m) of sales to the WHSmith retailing business.

Gross contribution increased by £4m, with a marginal decline in the overall gross margin percentage due to stronger sales of lower margin newspapers. Operating costs as a percentage of sales reduced by 0.4 percentage points, and as a consequence, net margin increased by 0.3 percentage points to 2.5% (2001 - 2.2%). Profits increased by £4m to £27m.

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Connect 2U, the B2B internet portal, incurred a loss of £2m (2001 - £3m loss) in the year including rationalisation and integration costs. As it now operates as an integral part of the News Distribution business, it will no longer be disclosed separately.

Other profit items

Centrally controlled support costs were £14m an increase of £2m on last year, due principally to increased training and development costs.

Internal rents on the freehold property owned by the Company, which are charged to the businesses, were £4m, a £1m increase on last year, due to freehold property in ASPAC.

Exceptional items

Following the events of September 11th and their impact on our US operations, a review of the US Travel Retail business was undertaken at the half year and adjustments were made to reflect the impairment of asset carrying values that had arisen totalling £27m. The total adjustment made to stock was US\$10m (£7m), to debtors and provisions US\$9m (£6m), to tangible fixed assets US\$8m (£5m) and to goodwill US\$11m (£8m). Associated restructuring costs of US\$1m (£1m) were also incurred. A further review has been undertaken at the full year and no further adjustment is felt to be necessary.

Following the acquisition of the John Murray publishing business in May, exceptional charges of £2m relating to reorganisation costs were incurred.

In July, 10 UK Retail stores were sold to TM Retail. The exceptional profit on disposal was £1m.

Interest

The results include interest income of £nil, compared with £3m in the previous year. The reduction of £3m arises principally from the impact of the trading performance of USA Travel Retail, the prior year acquisition of the Whitcoulls (New Zealand) and Angus & Robertson (Australia) bookstores and the reduction in interest rates year on year.

Taxation

The tax charge for the year is £37m, including £1m on international profits. The effective tax rate, excluding exceptional items, is 30% (2001 - 30%). This is in line with prevailing UK tax rates. The restated effective tax rate for 2000/01 of 30% has increased from 28% (see below) as a result of the introduction of FRS 19 and the consequential recognition of deferred tax liabilities previously unprovided under SSAP 15.

Under FRS19, the Group is required to make full provision for deferred tax in respect of timing differences that have originated but not reversed by the balance sheet date. The Group's previous accounting policy in respect of deferred tax was to recognise deferred tax only to the extent that a liability or asset was likely to be payable or recoverable, in accordance with SSAP 15.

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The impact of adopting FRS 19 is to decrease profit after tax by £3m (2001 - £4m reduction) from £55m to £52m and to reduce opening shareholders' funds at 1 September 2001 by £12m from £626m to £614m. All prior year comparatives have been restated accordingly.

Operating leases

In common with other retailers, the Company's stores are held mainly under operating leases, which are not regarded as debt for accounting purposes. The UK High Street leases are on standard 'institutional' lease terms, now typically with a 15 year term subject to five year upwards only rent reviews. The Travel Retail stores operate mainly through turnover related leases, usually with minimum rent guarantees, and generally varying in length from 5 to 10 years.

The business has an annual minimum net rental commitment of £166m (net of £14m of external rent receivable). The total future rental commitment at the balance sheet date amounted to £1.1bn with the leases having an average life of 7 years. The net present value of these commitments is approximately £0.7bn. Although large, these commitments are characteristic of the retail sector and the risks associated with them depend on their liquidity which is mainly influenced by the quality and location of the sites. These are considered to be satisfactory.

Fixed charges cover

A key measure of financial strength for the businesses is fixed charges cover. The fixed charges comprise operating lease rentals, property taxes, other property costs and interest. These were covered 1.5 times by profits (excluding goodwill amortisation and exceptional items) before fixed charges (2001 – 1.6 times). Excluding the US business, fixed charges cover has been maintained at 1.7 times.

Earnings per share

Earnings per share were 21.1p (2001 – 30.1p) whilst adjusted earnings before exceptional items and amortisation of goodwill were 34.6p (2001 – 37.4p).

Dividends

The Company's dividend policy is that, over the long term, dividends should be covered two times by earnings.

The Board is proposing a final dividend of 13 pence in line with last year. The final dividend will be paid on 31 January 2003 to shareholders registered at the close of business on 6 January 2003. This will give a dividend for the full year of 19 pence in line with last year. The total cost of the dividend will be £47m. Excluding goodwill amortisation and exceptional items, the proposed dividend is covered 1.7 times by earnings.

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Free cash flow and cash balances

The operating free cash flow available for the payment of dividends (before acquisitions and financing items) amounted to £39m compared with £64m in the previous year.

£m	2002	2001
Profit before tax, goodwill and exceptional items	122	133
Depreciation	52	47
Cash Profit	174	180
Working capital	(28)	(9)
Capital expenditure	(66)	(68)
Disposal of assets	2	2
Pension contributions	(4)	-
Tax paid	(36)	(38)
Provision spend	(3)	(3)
Free Cash Flow	39	64

The movement in working capital is £19m worse than the previous year, due to the timing of payments to creditors at the year end, as shown below:

£m	2002	2001
Stock	(7)	(18)
Debtors	(9)	(22)
Creditors	(12)	31
Working Capital	(28)	(9)

We have continued to invest vigorously in the business and capital expenditure can be analysed as follows:

	£m
New stores	13
Refurbished stores	22
Systems	22
Other	9
Total	66

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The movement in the net cash position is as follows:

	£m
Opening net cash	75
Free cash flow	39
Dividends	(47)
Acquisition of businesses	(22)
Cash in subsidiaries acquired	2
Purchase of shares for employee share schemes	(3)
Disposal of operation	2
Cashflow relating to exceptional items	(3)
Issues of shares	2
Currency translation differences	(1)
Closing net cash	44

Balance Sheet

The net assets comprise:

	£m	£m
Tangible assets		326
Goodwill		240
Investment		17
		<u>583</u>
Stocks	254	
Creditors less debtors	<u>(167)</u>	
Working Capital		87
Provisions		(28)
Dividends		(32)
Corporation Tax		(40)
		<u>570</u>
Net Cash		44
Net Assets		614

Tangible assets include £42m for the Company's interest in freehold and long leasehold property, comprising the Company's offices and depot in Swindon and certain small stores, which are not considered suitable for sale and leaseback.

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Return on Capital Employed

Total capital employed and returns thereon are as follows:

	Operating Capital Employed £m	ROCE %	ROCE % with operating leases capitalised
High Street	224	35%	16%
UK Travel Retail	28	75%	37%
WHSmith Online	7	-	-
UK Retailing	259	37%	18%
International Retailing	86	-	-
Total Retailing	345	16%	13%
Publishing	263	7%	7%
WHSmith News Distribution	(9)	-	-
Trading Operations	599	17%	14%
Central items and property	(29)	-	-
Total Operating Assets	570	16%	13%

For the prior year, comparable average returns were 24% (17% after operating leases capitalised).

Pensions

The Company has continued to account for pensions in accordance with SSAP24. The company intends to adopt FRS17, Retirements Benefits, issued in November 2000, for 2002/03. Transitional disclosures are included in these accounts.

The financial position of the Company is sensitive to the financial position of its main defined benefit pension fund which had £791m of assets as valued at 31 March 2000. These assets are held by a trustee administered fund to meet long-term pension liabilities to past and some present employees. The Company has undertaken to meet any shortfalls against the liabilities should they arise. The variable amount and length of defined benefit pension obligations inevitably gives rise to measurement issues in determining the financial position of the pension fund.

As shareholders will undoubtedly be aware, the financial position of most defined benefit pension funds has deteriorated over the last two years, and the last few months in particular, due primarily to the world-wide decline in equity markets. WHSmith's fund is no different in this respect and this deterioration will adversely affect the results of the Company and its cashflows over the next year. The longer-term impact is more difficult to judge and will depend on a number of market related factors, particularly equity valuations.

The change in accounting from SSAP24 to FRS17 will also have an impact on the way the results are reported and, in future, will result in increased volatility in the pre-tax profit result.

The Company closed its main defined benefit scheme to new members in 1995 but continues to fund the benefits accruing in respect of the remaining 4,538 active members. Employees who have joined the Company since 1995 are able to benefit from a defined contribution pension arrangement.

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An explanation of the financial position of the pension fund and the accounting impact of FRS17 on the Company is set out in a separate Appendix to this Financial Review.

Financing

The Company has committed bank facilities of £200m available of which £67m mature in May 2003 and £133m mature in May 2007.

Currency

Approximately 10 per cent of the Company's turnover is earned in foreign currencies. The effect of fluctuations in exchange rates was to decrease sales by £2m, with no impact on profits.

Currency exposures mainly relate to the translation of foreign income. The supply of products from outside the UK is mainly paid for in sterling.

Accounting for goodwill

Accounting for goodwill is regulated by Financial Reporting Standard 10, which requires goodwill on acquisitions to be capitalised and effectively permits the non-amortisation of goodwill if the value of goodwill is not less than the amount in the accounts, can be calculated, and is durable. The directors continue to take the view that these conditions apply to the goodwill on the original acquisition of Hodder Headline PLC and subsequent purchase of Wayland. Accordingly, no amortisation has been provided on this goodwill, which amounts to £175m. In the year Hodder Headline acquired the John Murray and Robert Gibson publishing businesses. The capitalised goodwill arising from these transactions was £15m and, in line with the goodwill policy applied to Hodder Headline and Wayland acquisitions, no amortisation has been provided.

The goodwill generated on the acquisition of the Whitcoulls (New Zealand) and Angus & Robertson (Australia) bookstores, now part of WHSmith ASPAC, is regarded as having a useful life of 20 years.

The goodwill generated on the acquisition of 8 stores from TM Retail, with associated goodwill of £2m is also regarded as having a useful life of 20 years.

ESOP share purchase

In April 2002 the Company purchased 0.5m of its own ordinary shares of nominal value of 55.55p each with an aggregate market value of £2.3m. These shares were held for the sole purpose of satisfying obligations under the employee share schemes.

Pension Accounting - Appendix to the Financial Review

Background

During the last two years, a combination of declining stock market values, increasing liabilities due to lower annuity rates and a Company contribution holiday has pushed the Company's main defined benefit pension arrangements from surplus into deficit as the table below shows:

Valuation Date	31 March 2000	31 August 2001	31 August 2002
Market value of assets	£791m	£664m	£572m
Liabilities	(£613m)	(£658m)	(£703m)
Net surplus (deficit)	£178m	£6m	(£131m)
Percentage funded	129%	101%	81%

** The valuation dated 31 March 2000 was the last full triennial actuarial valuation of the fund. The figures for 31 August 2001 and 2002 are those prepared for the purpose of FRS17.*

The main impact on the valuation of assets has of course been the significant decline in world stock markets over the last two years.

SSAP24

Under SSAP24 the pension cost recognised in the accounts is based on the latest triennial actuarial valuation of the fund as at 31 March 2000. It showed a strong position with assets exceeding liabilities by 29%. The Company has recognised the benefits of this surplus by way of a £13 million credit through the profit and loss account, providing a full offset to the regular cost of defined benefit pensions.

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FRS17

For the year ending 31 August 2003, the Company will account for the cost of pensions under FRS17. The year to 31 August 2002 will be restated under this new accounting policy. The effect of the adoption of FRS17 and the restatement will be as follows:

£m	<i>2002</i> <i>SSAP24</i>	<i>2002 Restated</i> <i>FRS17</i>	<i>2003</i> <i>FRS17</i>
Regular Cost	13	13	13
SSAP24 variation	(13)	-	-
Charge to operating profit	-	13	13
Interest - expected return on assets		(47)	(38)
- interest on pension liabilities		39	41
Charge to profit before taxation		5	16

Under FRS17, the profit and loss charge for pensions will be £5 million higher than stated under SSAP24 in 2001/02. For 2002/03, on a comparable FRS17 basis, the charge will be £11 million higher.

On the balance sheet, FRS17 requires the immediate recognition of any surplus or deficit in the pension fund as a pension asset or liability, with a corresponding effect on shareholders' funds. The restatement of the balance sheet at 31 August 2002 will have the following effects:

£m	<i>2002</i>
Net assets excluding pension liability	614
Pension liability	(143)
Related deferred tax asset	43
Net assets including pension liability	514
Profit and loss reserve excluding pension liability	215
Pension reserve	(100)
Profit and loss reserve	115

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Cash Impact

In addition to the profit and loss account and balance sheet effects identified above, the deterioration in the financial position of the pension fund will impact the Company's cashflows. For many years, the surplus in the fund has allowed the Company to take a full contributions holiday. However, recognising the reduction in the surplus at 31 August 2001, the Company renewed contributions during the year to August 2002, contributing £4 million.

In the current year ending 31 August 2003, the Company has agreed with the Trustees of the Pension Trust to increase the rate of cash contributions to cover the regular cost plus an element of the current deficit. It is anticipated that cash contributions to all the Company's defined benefit pension schemes will total about £20 million in the year.