

WH Smith PLC

Group Profit and Loss Account For the 12 months to 31 August 2004

£m	Note	2004			2003		
		Before exceptional items & goodwill amortisation	Exceptional items & goodwill amortisation	Total	Before exceptional items & goodwill amortisation As restated (note 6)	Exceptional items & goodwill amortisation	Total As restated (note 6)
Turnover							
- Continuing operations		2,520	-	2,520	2,469	-	2,469
- Discontinued operations		314	-	314	451	-	451
Group Turnover	1	2,834	-	2,834	2,920	-	2,920
Operating profit / (loss)							
- Continuing operations		51	(93)	(42)	99	(20)	79
- Discontinued operations		21	(10)	11	7	(37)	(30)
Group operating profit / (loss)	1,2,3	72	(103)	(31)	106	(57)	49
Net loss on sale of discontinued operations	4	-	(101)	(101)	-	-	-
Profit on sale of fixed assets – continuing operations	5	-	2	2	-	6	6
Profit on sale of fixed assets – discontinued operations	5	-	-	-	-	1	1
Profit / (loss) on ordinary activities before net finance charges		72	(202)	(130)	106	(50)	56
Net finance charges		(5)	-	(5)	(4)	-	(4)
Profit / (loss) on ordinary activities before taxation		67	(202)	(135)	102	(50)	52
Tax on profit / (loss) on ordinary activities	7	(23)	10	(13)	(31)	2	(29)
Profit / (loss) on ordinary activities after taxation for the financial year		44	(192)	(148)	71	(48)	23
Dividends	8	(24)	-	(24)	(47)	-	(47)
Retained earnings / (losses)		20	(192)	(172)	24	(48)	(24)
<i>Basic and diluted (loss)/ earnings per share</i>	9			<i>(60.7)p</i>			<i>9.4p</i>
<i>Adjusted earnings per share</i>	9			<i>18.0p</i>			<i>29.1p</i>
<i>Dividends per share</i>	8			<i>12.0p</i>			<i>19.0p</i>
<i>Fixed charges cover – times</i>	17			<i>1.3x</i>			<i>1.4x</i>
<i>Dividend cover – times</i>	8			-			<i>0.5x</i>
<i>Dividend cover before exceptional items and goodwill amortisation – times</i>	8			<i>1.5x</i>			<i>1.5x</i>

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Group Balance Sheet

As at 31 August 2004

£m	Note	2004	2003 As restated (note 6)
Fixed assets			
Intangible assets - goodwill		164	228
Tangible fixed assets		237	272
Investments		-	1
Total fixed assets		401	501
Current assets			
Stocks		184	257
Debtors due within one year		187	204
Debtors due after more than one year		25	5
Cash at bank and in hand		64	90
		460	556
Creditors due within one year			
Debt		(17)	(20)
Other creditors		(397)	(443)
		(414)	(463)
Net current assets		46	93
Total assets less current liabilities		447	594
Creditors due after more than one year			
Debt		(2)	(2)
Other creditors		(2)	-
		(4)	(2)
Provisions for liabilities and charges		(38)	(27)
Net assets excluding pension liabilities		405	565
Net pension liabilities		(149)	(156)
Total net assets		256	409
Capital and reserves			
Called up share capital	10	139	139
Share premium account	11	93	93
Capital redemption reserve	11	156	156
Revaluation reserve	11	3	4
Other reserve	11	(27)	(27)
Profit and loss account	11	(110)	40
Equity shareholders' funds		254	405
Non equity share capital	10	2	2
Shareholders' funds		256	407
Minority interests		-	2
Total capital employed		256	409

Approved by the Board of Directors on 14 October 2004.

Kate Swann
Chief Executive

John Warren FCA
Finance Director

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Group Cash Flow Statement

For the 12 months to 31 August 2004

£m	Note	2004	2003
Net cash inflow from operating activities before exceptional operating items	12	61	137
Net cash outflow from exceptional operating items	12	(13)	(2)
Net cash inflow from operating activities		48	135
Returns on investment and servicing of finance			
Interest received		1	1
Interest paid		(1)	(2)
Net charge on pension schemes		(4)	(3)
Net cash outflow from returns on investment and servicing of finance		(4)	(4)
Taxation		(10)	(32)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(49)	(47)
Proceeds on disposal of tangible fixed assets		5	26
Cash outflow from capital expenditure and financial investment		(44)	(21)
Acquisitions and disposals			
Proceeds on disposal of subsidiary undertakings		64	-
Proceeds on disposal of associated undertakings		1	-
Non-operating disposal costs		(23)	-
Net cash in subsidiaries disposed		(11)	-
Acquisitions - cash consideration		-	(2)
Net cash in subsidiaries acquired		-	1
Cash inflow / (outflow) from acquisitions and disposals		31	(1)
Equity dividends paid		(42)	(47)
Cash (outflow) / inflow before financing		(21)	30
Financing			
Premium on issue of shares		-	2
Purchase of shares for employee share schemes		-	(10)
Decrease in debt		(3)	(32)
Cash outflow from financing		(3)	(40)
Decrease in cash		(24)	(10)

Reconciliation of net cash flow to movement in net funds

£m	2004	2003
Net funds at the start of the year	68	44
Decrease in cash in the year	(24)	(10)
Decrease in debt	3	32
Currency translation differences	(2)	2
Net funds at the end of the year	45	68

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Group Statement of Total Recognised Gains and Losses

For the 12 months to 31 August 2004

£m	Note	2004	2003 As restated (note 6)
(Loss) / profit for the financial year		(148)	23
Actuarial loss relating to the pension schemes		(15)	(77)
UK deferred tax attributable to the pension schemes liabilities		(3)	21
UK current tax attributable to the additional pension schemes contributions		7	2
Net actuarial loss on post retirement medical benefits		-	(2)
Currency translation differences		(7)	4
Total recognised losses for the financial year		(166)	(29)
Prior year adjustment –UITF 38	6	1	
Total recognised losses since last annual report		(165)	

Reconciliation of Movements in Group Shareholders' Funds

For the 12 months to 31 August 2004

£m	Note	2004	2003 As restated (note 6)
Shareholders' funds at beginning of year as previously stated		433	507
Prior year adjustment for UITF 38	6	(26)	(16)
Shareholders' funds at beginning of year as restated		407	491
Retained losses		(172)	(24)
Purchase of own shares for employee share scheme		-	(10)
Goodwill previously written off directly to reserves now transferred to profit and loss account for the year on sale of USA Travel Retail business		39	-
Premium on issue of shares		-	2
Net gains and losses relating to pension schemes		(11)	(56)
Currency translation differences		(7)	4
Net reduction to shareholders' funds		(151)	(84)
Shareholders' funds at end of year		256	407

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Notes to the Accounts

For the 12 months to 31 August 2004

1 Segmental analysis of results

(a) Segmental analysis of group turnover

£m	2004	2003 As restated
Continuing operations:		
Retailing (note a)		
WHSmith High Street	1,145	1,164
UK Travel Retail	301	291
WHSmith Online	7	8
Total	1,453	1,463
News Distribution		
- Total turnover	1,182	1,115
- Internal turnover	(115)	(109)
Total	1,067	1,006
Turnover – continuing operations	2,520	2,469
Discontinued operations:		
Retailing		
USA Travel Retail	49	181
Aspac Retail	132	149
Total	181	330
Publishing Business		
- Total turnover	155	143
- Internal turnover	(22)	(22)
Total	133	121
Turnover – discontinued operations	314	451
Group Turnover	2,834	2,920

a) Like for like sales declined in the UK Retailing business by 1% (consisting of WHSmith High Street; down 2% and UK Travel Retail; up 3%).

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Notes to the Accounts

For the 12 months to 31 August 2004

1 Segmental analysis of results (continued)

(b) Segmental analysis of group operating profits

£m	2004			2003		
	Base business	Exceptional operating items and goodwill amortisation	Total operating profit	Base business	Exceptional operating items and goodwill amortisation	Total operating profit
Continuing operations:						
Retailing						
WHSmith High Street	25	(67)	(42)	73	(7)	66
UK Travel Retail (note a)	21	(5)	16	19	-	19
WHSmith Online	(2)	(10)	(12)	(2)	(1)	(3)
Total	44	(82)	(38)	90	(8)	82
News Distribution	35	-	35	32	-	32
Trading profit	79	(82)	(3)	122	(8)	114
Support functions	(15)	(11)	(26)	(14)	(12)	(26)
Pension service costs (note b)	(14)	-	(14)	(12)	-	(12)
Internal rents (note c)	1	-	1	3	-	3
Operating profit / (loss) – continuing operations	51	(93)	(42)	99	(20)	79
Discontinued operations:						
Retailing						
USA Travel Retail	(5)	-	(5)	(16)	(36)	(52)
Aspac Retail	7	(1)	6	5	(1)	4
Total	2	(1)	1	(11)	(37)	(48)
Publishing Business	20	(9)	11	19	-	19
Pension service costs (note b)	(1)	-	(1)	(1)	-	(1)
Operating profit / (loss) – discontinued operations	21	(10)	11	7	(37)	(30)
Group operating profit / (loss)	72	(103)	(31)	106	(57)	49

- UK Travel Retail includes profits of £1m (2003; £1m) generated in Continental Europe.
- The annual pension service costs in respect of the defined benefit schemes have been allocated between the businesses based on pensionable salaries as follows: WHSmith High Street £8m (2003; £7m), UK Travel Retail £1m (2003; £1m), Publishing £1m (2003; £1m), News Distribution £4m (2003; £3m) and Support functions £1m (2003; £1m). In addition to these pension costs, £2m of contributions has been charged to the individual businesses in respect of the defined contribution pension scheme.
- The results for the Retailing Businesses are reported after charging an internal arm's length market rent on freehold and long leasehold properties owned by the Group. The internal net income generated of £1m (2003; £3m) is shown as a separate credit to the profit and loss account and a debit against the respective businesses, giving a nil net effect to the overall Group operating profit before exceptional operating items and goodwill amortisation.
- Exceptional operating items and goodwill amortisation includes goodwill amortisation for the following businesses WHSmith High Street £1m (2003; £1m); WHSmith Online £nil (2003; £1m); USA Travel Retail £nil (2003; £1m) and Aspac Retail £1m (2003; £1m).
- Exceptional operating items incurred during the year are analysed in Notes 2 and 3.

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Notes to the Accounts

For the 12 months to 31 August 2004

1 Segmental analysis of results (continued)

(c) Geographical split

£m	Turnover		(Loss) / profit before taxation		Net assets	
	2004	2003 As restated	2004	2003	2004	2003 As restated
Continuing operations – UK / Europe	2,520	2,469	(45)	81	139	181
Discontinued operations:						
UK / Europe	110	99	(42)	16	205	262
USA	49	181	(67)	(52)	11	22
Asia / Pacific	155	171	19	7	5	32
Total discontinued operations	314	451	(90)	(29)	221	316
Net funds					45	68
Net pension liabilities:						
Continuing operations					(132)	(143)
Discontinued operations					(17)	(13)
Total Group	2,834	2,920	(135)	52	256	409

Turnover is disclosed by origin. There is no material difference in turnover by destination.

2 Group operating profit

£m	2004			2003		
	Continuing	Discontinued	Total	Continuing As restated	Discontinued As restated	Total As restated
Turnover	2,520	314	2,834	2,469	451	2,920
Cost of sales	(1,882)	(146)	(2,028)	(1,771)	(208)	(1,979)
- Pre-exceptional	(1,836)	(146)	(1,982)	(1,771)	(208)	(1,979)
- Exceptional	(46)	-	(46)	-	-	-
Gross profit	638	168	806	698	243	941
Distribution costs	(531)	(99)	(630)	(489)	(186)	(675)
- Pre-exceptional	(517)	(90)	(607)	(483)	(167)	(650)
- Exceptional	(14)	(9)	(23)	(6)	(19)	(25)
Administrative expenses	(149)	(58)	(207)	(130)	(87)	(217)
- Pre-exceptional and amortisation of goodwill	(116)	(57)	(173)	(116)	(69)	(185)
- Exceptional	(32)	-	(32)	(12)	(16)	(28)
- Amortisation of goodwill	(1)	(1)	(2)	(2)	(2)	(4)
Group operating (loss) / profit	(42)	11	(31)	79	(30)	49

The exceptional operating items are detailed in Note 3.

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Notes to the Accounts

For the 12 months to 31 August 2004

2 Group operating profit (continued)

Group operating profit before exceptional items and goodwill amortisation is stated after charging:

£m	2004			2003		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
Depreciation	41	5	46	34	15	49
Net operating lease charges						
- land and buildings	139	25	164	130	56	186
- equipment and vehicles	13	7	20	13	7	20
Other occupancy costs	49	3	52	42	7	49
Staff costs	278	58	336	266	94	360

Fees payable to Deloitte & Touche, the Company's auditors, included in the profit and loss account relating to audit fees amount to £0.4m (2003; £0.6m), and non-audit fees of £2.0m (2003; £0.8m) which comprise audit related regulatory work £0.1m (2003; £0.1m), further assurance services £1.2m (2003; £0.1m), tax compliance services £0.3m (2003; £0.2m), tax advisory services £0.4m (2003; £0.3m) and other non-audit services £nil (2003; £0.1m). The majority of the non-audit fees incurred in the year related to corporate advisory costs in respect of the Group reorganisation and the disposal of subsidiaries during the year.

3 Exceptional operating items and goodwill amortisation

£m	2004	2003
Continuing operations:		
UK Retailing Operational & Financial Review (note a)		
- Stock write down	45	-
- Impairment of intangible and tangible fixed assets	20	-
- Internal restructuring of UK Retailing	12	-
- Other items	4	-
Corporate advisory costs (note b)	11	-
Surplus property provision (note d)	-	12
Impairment of fixed assets (note e)	-	6
Exceptional operating items – continuing operations	92	18
Goodwill amortisation	1	2
Exceptional operating items and goodwill amortisation – continuing operations	93	20
Discontinued operations:		
Publishing unearned author advances provision (note c)	9	-
USA Travel Retail impairment (note f)	-	35
Exceptional operating items – discontinued operations	9	35
Goodwill amortisation	1	2
Exceptional operating items and goodwill amortisation – discontinued operations	10	37
Group exceptional operating items and goodwill amortisation	103	57

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Notes to the Accounts

For the 12 months to 31 August 2004

3 Exceptional operating items and goodwill amortisation (continued)

Current year exceptional operating items

a) UK Retailing Operational & Financial Review

As a result of a detailed review, the carrying value of stock has been written down by £45m. This reflects redundant and slow moving items, particularly as a result of the substantial slow down in the sales of certain entertainment product categories.

Fixed asset impairments of £20m include the recent costs of research work on our concept store and systems development for UK Travel Retail. This impairment charge also covers goodwill and assets in relation to WHSmith Online.

The internal restructuring of UK Retailing has led to a material reduction in the number of staff at the London and Swindon locations. The total redundancy and associated costs of this programme were £12m.

b) Corporate advisory costs

In responding to the Permira approach and implementing the consequent change to the Group's structure, the Group incurred exceptional operating costs of £11m.

c) Publishing unearned author advances provision

An exceptional provision of £9m was charged in the year to ensure that the balance sheet correctly reflected an up-to-date view of the future sales prospects of backlist titles published in previous years.

Prior year exceptional operating items

d) Surplus property provision

As a result of a sub-tenant default and a deterioration in the London commercial property market in the year to 31 August 2003, a requirement arose to significantly increase the provision for onerous leases. Following a review of the provision, it was increased by £12m.

e) Impairment of fixed assets

In the prior year, WHSmith High Street wrote down surplus fixed assets of £6m related to loss making stores and other sundry impaired short life assets.

f) Further impairment and write down of USA Travel Retail assets

The Group carried out a further review of the carrying value of assets in the USA Travel Retail operations and concluded that an impairment charge of \$55m (£35m) was required.

The tax effect of the exceptional items is disclosed in note 7 to the accounts.

4 Net loss on sale of discontinued operations

£m	2004
Loss on sale of USA Travel Retail (note a)	(62)
Profit on sale of Aspac Retail (note a)	10
Provision for loss on sale of Publishing Business (note b)	(48)
Other	(1)
Net loss on sale of discontinued operations	(101)

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Notes to the Accounts

For the 12 months to 31 August 2004

4 Net loss on sale of discontinued operations (continued)

a) Sale of USA Travel Retail and Aspac Retail Businesses

During the year, the Group has disposed of its USA Travel Retail businesses and the Aspac Retail business. A financial summary of the disposals is detailed below.

£m	USA Travel Retail	Aspac Retail	Total
Fixed Assets	5	23	28
Stock	15	28	43
Debtors	10	2	12
Cash	-	11	11
Creditors	(1)	(27)	(28)
Total assets	29	37	66
Minority interest	(1)	-	(1)
Net assets disposed	28	37	65
Consideration:			
Cash	20	44	64
Deferred consideration (see below)	19	6	25
Total consideration	39	50	89
Net assets disposed	(28)	(37)	(65)
Net liabilities retained	(28)	-	(28)
Transaction costs (see below)	(6)	(3)	(9)
(Loss) / profit before goodwill previously written off directly to reserves	(23)	10	(13)
Goodwill previously written off directly to reserves	(39)	-	(39)
(Loss) / profit on sale of discontinued operations	(62)	10	(52)

US Travel Retail

Deferred consideration of £7m in respect of the Hotel business sale to Travel Traders LLC consists of a loan note, which is interest bearing, with a 5 per cent coupon conditional on the trading cash flows of that company. Deferred consideration of £12m in respect of the Airport business sale to Hudson Group consists of an interest bearing loan note with a 5 per cent coupon, with interest accruing from the second year.

Aspac Retail

The profit on the disposal of Aspac Retail is calculated with reference to the draft completion accounts. The deferred consideration of £6m is receivable subject to the finalisation of these completion accounts with the purchaser.

Other

The Group also disposed of associate undertakings Books and More NZ Limited, University Bookshop (Otago) Ltd and University Bookshop Canterbury Limited for a total consideration of £1.3m. The total investments disposed and associated costs were £1.0m and there was £0.3m profit on disposal.

On 30 June 2004, the Group completed a trade and assets sale of its Singapore business which resulted in a £nil profit on disposal.

(b) Provision for loss on sale of Publishing Business

On 25 September 2004, the Group completed the disposal of its Publishing Business, Hodder Headline Limited. The business was sold to Hatchette Livre for £210m cash and the assumption of the Hodder Headline Limited net pension deficit of £14m. A provision of £48m has been made for the loss on disposal, of which £45m has been shown as an impairment of goodwill and £3m is included in accruals for associated disposal costs. The estimated loss on disposal is subject to the preparation and agreement of completion accounts.

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Notes to the Accounts

For the 12 months to 31 August 2004

5 Profit on sale of fixed assets

a) Continuing operations

In the current year WHSmith High Street completed the sale and leaseback of 7 freehold properties and sold a further 6 freehold properties. The profit on the sale of these properties was £2m.

In the prior year, WHSmith High Street completed the sale and leaseback of twenty freehold properties and sold a further four freehold properties. The profit on the sale of these properties was £6m.

b) Discontinued operations

In the prior year Aspac Retail completed the sale and leaseback of three properties in New Zealand. The profit on the sale of these properties was £1m.

6 Prior Year Adjustments

Urgent Issues Task Force Abstract 38 "Accounting for ESOP Trusts" (UITF 38) has been adopted with effect from 1 September 2003. The adoption of UITF 38 requires that an entity's own shares held in an ESOP Trust are deducted in arriving at shareholders' funds. The impact is set out in (a) and (b) below.

The Group has adopted Application Note G "Revenue Recognition" to Financial Reporting Standard 5 "Substance of Transactions" ("FRS 5 ANG"). The key impacts of this amendment for the Group are set out below.

FRS 5 ANG states that turnover excludes the sales value of estimated returns. Accordingly the provision for estimated refunds (previously included in cost of sales), which represents the cumulative estimate that will be returned and refunded after the year end, has now been deducted from turnover.

FRS 5 ANG states that turnover should be recorded net of discounts. Accordingly, discounts provided to customers and staff (including loyalty scheme costs) previously shown as deductions against gross margin, have been reclassified as deductions against turnover.

Other ancillary income previously deducted from administration costs has now been reclassified as part of turnover.

a) Consolidated balance sheet

The table below sets out the impact of the adoption of UITF 38 on the balance sheet as at 31 August 2003.

£m	Investments	Other reserve	Profit and loss reserve
At 31 August 2003	27	-	39
Adoption of UITF 38	(26)	(27)	1
31 August 2003 restated	1	(27)	40

The above restatement has reduced the net assets of the group by £26m as at 31 August 2004. There has been no impact on net assets arising from the adoption of FRS 5 ANG.

b) Consolidated profit and loss account

Under UITF 38, any impairment in the carrying value of shares held in the ESOP Trust is no longer charged to the profit and loss account, and as such, a prior year adjustment of £1m in respect of previous years' impairments has been credited directly to the profit and loss reserve. If the previous policy had been continued in the current year, the impact on profit before and after tax for the year ended 31 August 2004 would have been £nil.

In accordance with the change in accounting policy to adopt FRS 5 ANG, group turnover for the year ended 31 August 2003 has been restated from £2,900m to £2,920m. There has been no impact on profit before tax or profit after tax in respect of the restatements relating to FRS 5 ANG for the year ended 31 August 2003. If the previous policy had been continued in the current year, the impact on profit before and after tax for the year ended 31 August 2004 would have been £nil.

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Notes to the Accounts

For the 12 months to 31 August 2004

7 Taxation

£m	2004	2003
Tax on profit before exceptional items and goodwill amortisation	20	40
- <i>Standard rate of UK corporation tax 30% (2003; 30%)</i>		
Adjustment in respect of prior year UK corporation tax	(3)	(6)
Foreign tax	3	1
Total current tax charge before exceptional items and goodwill amortisation	20	35
Deferred tax - current year	-	(4)
Deferred tax - prior years	3	-
Tax on profit on ordinary activities before exceptional items and goodwill amortisation	23	31
Tax on exceptional items and goodwill amortisation	(10)	(2)
Tax on profit on ordinary activities after exceptional items and goodwill amortisation	13	29
<i>Effective tax rate on continuing activities before exceptional items and goodwill amortisation</i>	30%	30%

8 Dividends

Equity shares	2004	2003
Interim	4.0p	6.0p
Final	8.0p	13.0p
Total dividend per ordinary share	12.0p	19.0p

£m	2004	2003
Interim	10	15
Final – proposed	14	32
Total dividend	24	47

	2004	2003
Dividend cover – times	-	0.5x
Dividend cover before exceptional items and goodwill amortisation – times	1.5x	1.5x

The final dividend will be paid on 28 January 2005 to shareholders registered at the close of business on 31 December 2004. As at 31 August 2004, the Group had 250,559,901 (2003; 250,437,430) ordinary shares in issue. The final dividend for the year ended 31 August 2004 has been calculated on the revised number of shares following the '18 for 25' share consolidation, which occurred on 27 September 2004.

WH Smith PLC

Notes to the Accounts

For the 12 months to 31 August 2004

9 (Loss) / earnings per share

a) (Loss) / earnings per share

£m	2004			2003		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
(Loss) / profit attributable to shareholders	(50)	(98)	(148)	53	(30)	23
Exceptional items net of related tax impact	81	109	190	9	35	44
Amortisation of goodwill	1	1	2	2	2	4
Adjusted earnings attributable to shareholders	32	12	44	64	7	71

Adjusted earnings per share is based on (losses) / profits attributable to shareholders before goodwill charges and exceptional items and is presented to show a clearer representation of the results of the business going forward.

	2004			2003		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
Basic and diluted (loss) / earnings per share	(2	(4	(6		(12.3)p	
Exceptional items net of related taxation					14.4p	
Amortisation of goodwill						
Adjusted earnings per share	13.1p	4.9p	18.0p			

In accordance with FRS 14 'Earnings per share', as the Group recorded a loss from continuing operations, the diluted loss per share is the same as the basic, as any potential dilutive shares reduce the loss per share for continuing operations. In the prior year, earnings per share was not diluted by shares under option.

a) Weighted average share capital

Millions	2004	2003
Weighted average shares in issue for earnings per share	244	244
Add weighted average number of ordinary shares under option	-	-
Weighted average ordinary shares for fully diluted earnings per share	244	244

The weighted average number of ordinary shares in issue is stated after excluding 6,682,660 (2003; 6,541,345) shares held in the Employee Share Trust.

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Notes to the Accounts

For the 12 months to 31 August 2004

10 Called up share capital

a) Authorised

	2004		2003	
	Number of shares (millions)	Nominal value £m	Number of shares (millions)	Nominal value £m
Ordinary shares of 55.55p each	333	185	333	185
'B' shares of 53.75p each	286	153	286	153
At 31 August 2004		338		338

(a) Allotted and fully paid

	2004		2003	
	Number of shares (millions)	Nominal Value £m	Number of shares (millions)	Nominal value £m
Ordinary shares of 55.55p each	251	139	250	139
'B' shares of 53.75p each	4	2	4	2
At 31 August 2004		141		141

The number of shares issued in the year to 31 August 2004 was 127,447 shares (2003; 546,956 shares) ordinary shares with a nominal value of £0.1m relating to share options exercised for a cash consideration of £0.4m (2003; £2m).

The 'B' shares are redeemable at their nominal value at the shareholder's option during any year declared by the Group, at the Group's option or on maturity on 31 August 2008. Additionally, 'B' shares have no rights to ordinary dividends or voting.

In addition, the Group has 169,072 authorised, allotted and fully paid 5.75% cumulative preference shares in issue, which receive dividends half yearly.

At 31 August 2004, the number of options held under employee share schemes was 16.5 million shares (2003; 16.7 million).

11 Reserves

£m	Share premium account	Capital redemption reserve	Revaluation reserve	Other reserve	Profit & loss account
Reserves at 1 September 2003 as previously stated	93	156	4	-	39
Prior year restatement for UITF 38	-	-	-	(27)	1
Reserves at 1 September 2003 as restated	93	156	4	(27)	40
Loss retained for the year	-	-	-	-	(172)
Profit realised on sale of previously revalued freehold property	-	-	(1)	-	1
Goodwill previously written off directly to reserves	-	-	-	-	39
Currency translation differences	-	-	-	-	(7)
Current year net pension deficit adjustment	-	-	-	-	(11)
Reserves at 31 August 2004	93	156	3	(27)	(110)

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Notes to the Accounts

For the 12 months to 31 August 2004

11 Reserves (continued)

The profit and loss reserve at 31 August 2004 is stated after writing off previously acquired goodwill of £19m (2003; £58m).

The capital redemption reserve was created from the repurchase of ordinary and 'B' shares.

The WH Smith Employees' Share Trust 1999 (the "Trust") holds ordinary shares in WH Smith PLC which may be used to satisfy options granted under the Executive Share Option Scheme 1999 and awards granted under the Deferred Bonus Plan and 2004 L-TIP. The Trustee, which is an independent professional trust company based in Jersey, purchases the shares in the open market with financing provided by the Group as required, on the basis of regular reviews of the anticipated share liabilities of the Group.

In accordance with UITF 38, which requires shares held by the Trust to be shown as a deduction in arriving at shareholders' funds, the other reserve comprises 6,682,660 shares (2003; 6,541,345) with a nominal value of £3,712,218 (2003; £3,633,717) and a market value at 31 August 2004 of approximately £20m (2003; £23m). Dividends are waived for all ordinary shares held by the Trust.

£m	2004	2003 As restated
Profit and loss reserve excluding net pension liabilities	39	196
Amount relating to pension liabilities, net of related deferred tax	(149)	(156)
Profit and loss reserve	(110)	40

12 Notes to the cash flow statement

Reconciliation of operating (loss) / profit to net cash inflow from operating activities

£m	2004	2003
Operating (loss) / profit	(31)	49
Adjustment for pension funding (note a)	(25)	(6)
Operating exceptional items	101	53
Depreciation of fixed assets	46	49
Amortisation of goodwill	2	4
(Increase) / decrease in stock	(17)	3
Increase in debtors	(1)	(17)
(Decrease) / increase in creditors	(9)	6
Cash spend against provisions	(5)	(4)
Net cash inflow from operating activities before exceptional operating items	61	137
Internal restructuring of UK Retailing	(11)	-
Other items	(2)	-
Lease termination costs	-	(2)
Cash outflow relating to exceptional operating items	(13)	(2)
Net cash inflow from operating activities after exceptional operating items	48	135

- a) For the year ended 31 August 2004, £44m (2003; £22m) cash contributions have been made to the pension schemes. The associated profit and loss charge comprises £15m (2003; £13m) for operating costs and £4m charge (2003; £3m charge) for financing. The Group has made an additional contribution of £25m over and above the required profit and loss charge (2003; £6m additional contribution).

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Notes to the Accounts

For the 12 months to 31 August 2004

13 Contingent liabilities

£m	2004	2003
Guarantees given in the normal course of business	-	6
Bank and other loans guaranteed	20	2
	20	8

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. These leases have an estimated future cumulative gross rental commitment of approximately £201m (2003; £238m).

14 Capital commitments

Contracts placed for future capital expenditure approved by the directors but not provided for in these financial statements amounts to £33m (2003; £45m).

15 Transactions with related parties

USA Travel Retail - Hotels

The CEO of Travel Traders LLC is Sean Anderson who was Chairman of WHSmith Inc, WH Smith PLC's US subsidiary, until September 2003, and he holds a 30% stake in Travel Traders LLC. The total consideration of £7m for the USA Travel Retail Hotel Business was satisfied by way of an interest bearing loan note with a 5 per cent coupon, conditional on the trading cash flows of Travel Traders LLC. Additionally, WH Smith Group Holdings (USA) Inc. holds a 15% equity interest in Travel Traders LLC and the Group is providing a loan facility of up to £4m to the new company, of which £3m is drawn down as at 31 August 2004.

16 Post balance sheet events

Completion of Hodder Headline disposal

On 25 September 2004 the Group completed the disposal of its publishing business, Hodder Headline. The business was sold to Hachette Livre S.A. for £210m in cash and the assumption of the Hodder Headline net pension deficit of £14m. A provision has been made for a loss on disposal within these accounts of £48m.

New financing facilities

On 27 July 2004, the Group entered into new committed 3 year borrowing facilities comprising a £120m unsecured term loan facility (of which £30m was cancelled on 20 September 2004) and a renegotiated £150m working capital facility. Both facilities were contingent on the satisfactory completion of the disposal of Hodder Headline. The facilities therefore became available to the Group on 27 September 2004 following the successful completion of this disposal.

Capital reorganisation

On 27 September 2004, the Group undertook a capital reorganisation whereby existing ordinary shareholders received 18 new ordinary shares and 25 new non-cumulative preference shares of nominal value 85p "C shares" for every 25 existing ordinary shares (excluding those shares held in the ESOP trust). The new ordinary shares have a nominal value of 2 13/81 p each. This capital reorganisation was effected by a bonus issue of approximately £77.7m, using the share premium account to fully pay up undesignated shares of 31p each, which were then allocated to shareholders on the basis of one undesignated share for every existing share held. The existing ordinary shares and undesignated shares were then consolidated and split in order to achieve the issue of new ordinary share capital of a nominal value of £4m and C shares of a nominal value of £207m.

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Notes to the Accounts

For the 12 months to 31 August 2004

17 Fixed charges cover

£m	2004	2003
Interest expense	5	4
Operating lease rentals	184	206
Property taxes	37	36
Other property costs	15	13
Total fixed charges	241	259
Profit before exceptional items, goodwill amortisation and tax	67	102
Profit before exceptional items, goodwill amortisation and tax and before fixed charges	308	361
Fixed charges cover	1.3x	1.4x

Fixed charges cover is calculated by dividing profit before exceptional items, goodwill amortisation, tax and fixed charges by total fixed charges.

18 Analysis of Retail Stores and Selling Space

	1 Sept	Opened	Closed	Disposed	31 Aug 2004
Number of stores					
WHSmith High Street	545	7	(8)	-	544
UK Travel Retail (note a)	132	3	(6)	-	129
Total Retailing Businesses – continuing	677	10	(14)	-	673
USA Travel Retail – Hotels	278	-	-	(278)	-
USA Travel Retail – Airports	160	7	-	(167)	-
Aspac Retail	204	10	(7)	(207)	-
Total Retailing Businesses - discontinued	642	17	(7)	(652)	-
Total Retailing Businesses	1,319	27	(21)	(652)	673
Retail selling square feet (000's)	1 Sept 2003	Opened	Closed	Disposed	31 Aug 2004
WHSmith High Street	3,034	55	(33)	-	3,056
UK Travel Retail	212	6	(4)	-	214
Total Retailing Businesses – continuing	3,246	61	(37)	-	3,270
USA Travel Retail - Hotels	286	-	-	(286)	-
USA Travel Retail - Airports	154	11	-	(165)	-
Aspac Retail	778	32	(15)	(795)	-
Total Retailing Businesses - discontinued	1,218	43	(15)	(1,246)	-
Total Retailing Businesses	4,464	104	(52)	(1,246)	3,270

(a) UK Travel Retail store numbers have been restated to reflect the number of stores rather than the number of units.

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For the 12 months to 31 August 2004

19 Segmental analysis of operating assets employed

	Operating assets as at 31 August 2004 £m	Return on capital employed %	ROCE% after capitalised net Operating leases including internal rent %	Operating assets as at 31 August 2003 as restated £m	Return on capital employed as restated %	ROCE% after capitalised net operating leases including internal rent as restated %
Continuing operations:						
WHSmith High Street	189	13%	10%	221	33%	15%
UK Travel Retail	25	83%	24%	30	63%	38%
WHSmith Online	(2)	-	-	8	-	-
UK Retailing	212	21%	12%	259	35%	18%
News Distribution	(18)	-	-	(14)	-	-
Continuing trading operations	194	41%	17%	245	50%	22%
Freehold property	21			24		
Support functions	(48)			(65)		
Provisions for liabilities and charges	(28)			(23)		
Operating assets employed - continuing operations	139	37%	14%	181	55%	20%
Discontinued operations:						
USA Travel Retail	21			26		
Aspac Retail	-			28		
Publishing	210	9%	9%	266	7%	6%
Provisions for liabilities and charges	(10)			(4)		
Operating assets employed - discontinued operations	221			316		
Total operating assets employed	360			497		
Net funds	45			68		
Net assets excluding pension liabilities	405			565		
Net pension liabilities:						
Continuing operations	(132)			(143)		
Discontinued operations	(17)			(13)		
Total net assets	256			409		

- a) Return on Capital Employed is calculated as the operating profit before exceptional items and goodwill amortisation as a percentage of operating capital employed.
- b) 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.

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20 Preparation of the Preliminary Announcement

(a) Basis of preparation

The preliminary announcement for the 12 months to 31 August 2004 has been prepared on the basis of the accounting policies set out in the Company's Annual Report for the 12 months to 31 August 2003 with the exception of the adoptions of UITF 38 "Accounting for ESOP Trusts" and Application Note G "Revenue recognition" to Financial Reporting Standard 5 "Substance of Transactions" which have been adopted with effect from 1 September 2003. The prior year results have been adjusted accordingly, as explained in note 6. All other accounting policies have been applied consistently throughout the current and preceding year.

The Company has adopted the Format 1 Profit and Loss account headings set out in the Companies Act 1985 in compiling its annual accounts at 31 August this year, as the Directors believe this provides a more appropriate view of the Company's results, following a financial and operational review during the period and consideration of the formats adopted by other retail companies. Prior year figures have been restated on a comparable basis.

(b) Preliminary announcement

The financial information for the 12 months to 31 August 2004 and 12 months to 31 August 2003 do not comprise statutory accounts for the purpose of Section 240 of the Companies Act 1985 and have been extracted from the Company's accounts for the year to 31 August 2003 and the year to 31 August 2004. The statutory accounts for the 12 months to 31 August 2003 have been filed with the Registrar of Companies and those for the 12 months to 31 August 2004 will be filed following the Company's annual general meeting. The auditors' reports on both those accounts were unqualified and did not include a statement under Section 237 (2) or (3) of the Companies Act 1985.

The Annual Report and Accounts will be posted to shareholders in November 2004.