

14 October 2010

**WH SMITH PLC
PRELIMINARY RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 AUGUST 2010**

Good profit performance, final dividend up 18% and announcement of an additional return of cash to shareholders

KEY POINTS

- Group profit before tax and exceptional items up 9% to £89m (2009: £82m)
 - Record profit performance from Travel with operating profit up 10% to £53m¹ (2009: £48m)
 - High Street operating profit up 4% to £51m¹ (2009: £49m)
- Total Group profit before tax² of £89m (2009: £81m)
- Underlying earnings per share³ up 11% to 45.7p (2009: 41.3p). Earnings per share (including exceptional items)⁴ up 13% to 45.7p (2009: 40.6p)
- Strong balance sheet and cash generation
 - Strong free cash flow⁵ of £82m (2009: £89m)
 - Net funds of £56m versus net funds of £45m as at 31 August 2009
- Final dividend proposed of 13.3p, up 18% on the prior year. Full year ordinary dividend of 19.4p, up 16% on prior year
- Return of up to £50m of cash to shareholders through rolling share buyback programme announced today
- Group total sales down 2% with like-for-like (LFL) sales down 4%:
 - Travel total sales up 1% with LFL sales down 2%
 - High Street total sales down 4% with LFL sales down 4%, in line with our strategic plan
- Gross margin improved by 160 basis points year on year
- Strong profit performance in Travel with the business well positioned for future growth
- Continued profit growth in High Street, with further £13m of cost savings identified

Commenting on the results, Kate Swann, Group Chief Executive said:

“We have delivered a good performance, with Group profit up 9% to £89m, ahead of expectations. Travel delivered record profit in the year and we saw further profit growth and strong cash generation from High Street.

“We are announcing today the return of cash of up to £50m to shareholders via a rolling share buyback, together with a proposed final dividend increase of 18%.

“We are a resilient business with a strong and consistent record of both profit growth and cash generation and are well-positioned for continued growth in the future.”

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 Continuing and discontinued operations after exceptional items

³ Profit after tax and before exceptional items – diluted

⁴ EPS as per IAS 33 – diluted

⁵ Net cash flow from operating activities adjusted for capital expenditure, pension deficit funding, tax refunds and net interest received

- Ends -

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WH Smith PLC's Preliminary Results 2010 are available at www.whsmithplc.co.uk. A copy of the Preliminary Results 2010 will shortly be available for inspection at the UK Listing Authority, 25 The North Colonnade, London E14 5HS.

FINANCIAL REVIEW

Group Summary

The Group generated profit before tax and exceptional items of £89m (2009: £82m), an increase of 9% on the prior year. Total Group profit before tax¹ was £89m (2009: £81m).

Underlying earnings per share² increased by 11% to 45.7p (2009: 41.3p), with earnings per share (including exceptional items)³ of 45.7p (2009: 40.6p).

The Group remains highly cash generative and has a strong balance sheet. Net funds were £56m versus net funds of £45m as at 31 August 2009. Group free cash flow⁴ was £82m (2009: £89m).

The Board has proposed a final dividend of 13.3p per share, up 18% year on year, giving a total ordinary dividend per share of 19.4p, a 16% increase on the prior year.

In addition, the Board today announces the return of up to £50m of cash to shareholders through a rolling share buyback programme.

The proposed increase in final dividend, together with the return of cash to shareholders, reflects the cash generative nature of the Group and the Board's confidence in its future prospects.

Travel delivered a strong performance, with operating profit⁵ increasing by 10% to £53m and now accounting for 51% of profit from trading operations. The division is well-placed for recovery in air passenger numbers. During the year we made further progress in both our established and newer channels and opened a total of 33 units.

High Street continues to deliver consistent profit growth and strong cash generation with profits of £51m, up 4% on the prior year. We continue with our strategy to rebalance the mix of the business towards our core categories whilst reducing our presence in entertainment. Cost savings of £12m were delivered in line with our plan. A further £13m of cost savings have been identified making a total of £25m over the next three years.

Total Group sales were £1,312m (2009: £1,340m) with LFL sales down 4%. Travel sales grew by 1% to £452m, down 2% on a LFL basis. High Street sales were down 4% at £860m and down 4% on a LFL basis (excluding entertainment LFL sales were down 1%).

¹ Continuing and discontinued operations after exceptional items

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

⁵ 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

Trading Operations

Travel

Travel continued its strong performance delivering further profit growth despite soft passenger numbers in air. This demonstrates the strength of the business model. Operating profit¹ increased by 10% to £53m (2009: £48m), achieved as a result of increased sales combined with improved gross margin and tight cost control.

Total Travel sales grew by 1% driven by new business. Travel sales were down by 2% on a LFL basis with sales continuing to outperform passenger numbers. We continue to increase average transaction value by focusing on mix changes and improved promotional activity.

Gross margin increased by around 170bps during the period, due to good category mix management and further buying improvements, resulting in more sales in higher margin categories such as books, confectionery and drinks.

We are continuing to identify further opportunities for growth in the UK. In Air, we opened 7 new units, for example Belfast landside and Edinburgh arrivals, and have plans in place to open a further 8 units in the year ahead. In Regional Rail, we opened 4 new units, for example Kingston upon Thames and Woking, and have plans to open units in 6 other regional railway stations during 2010/11. We have also opened 9 new hospital units in the year, for example, Watford and Doncaster, bringing the total number of hospital units to 103 and we anticipate opening a further 50 over the next five years.

We have made good progress in our new workplace channel with 8 units now open either within or just outside large office buildings. These units are performing well. The market is potentially large with similar economics to the hospital market and we expect to open a further 40 over the next five years.

While it is still early days, our international units are performing well, with customers reacting favourably to both the WHSmith brand and offer. We have now opened a total of 16 units internationally including 8 in the year. In the year ahead, as previously announced, we will open 3 units in the new terminal in Dublin and the remaining 3 units in the domestic departures in Delhi. In addition, we have today announced plans to open a further 6 units: one further unit in Oman, one in Mumbai, a small unit in Sydney and 3 units in Melbourne, all of which will open over the next 18 months. The units in Oman and Mumbai will be part of a franchise arrangement, with the units in Australia run by WHSmith directly.

The Travel business now operates from 516 units, including motorway service area franchise units and coffee shops. Seven units were closed, primarily due to landlord redevelopment. We renewed 23 contracts and completed 7 refits during the year. Excluding franchise units, Travel occupies 0.4m square feet (2009: 0.4m square feet).

High Street

High Street operating profit¹ increased by 4% to £51m (2009: £49m) with the business continuing to deliver profit growth. This was achieved through rebuilding authority in our core categories, optimising margins, tightly controlling costs and delivering the retailing basics. Cash generation in the division continued to be strong.

High Street sales were down 4% and also down 4% on a LFL basis, in line with our strategic plan. Excluding entertainment, LFL sales were down 1%. Gross margin improved by around 150bps through rebalancing the mix of our business, better buying terms, and improved sourcing and markdown management.

High Street delivered £12m of cost savings during the year. These came from a number of areas of the business including variable costs associated with entertainment, store efficiencies through improved use of technology and supply chain efficiencies following the successful relocation to our new distribution centre in Birmingham. A further £13m of cost savings have been identified over the next three years, making total targeted savings of £25m between 2011 and 2013.

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

The High Street business now operates from 573 stores, which occupy 3.0m square feet (2009: 3.0m square feet). We opened 8 new stores, in line with our strategy to open in unserved catchments, for example, in Clitheroe, Amersham and Thirsk.

Category Performance

Stationery:

We continue with our strategy to build on our market leading position in Stationery. LFL sales were up 1% and, as planned, gross margin was also up. We saw a strong share performance in both general and seasonal stationery. This was driven in part by additional space given to general stationery enabling us to maintain space for more everyday essentials at Christmas. This space then transferred to seasonal stationery to help manage seasonal markdown effectively post-Christmas. Our stock position coming out of the key Christmas period was good and helped to support the margin growth in the category, as did improvements to our markdown management. We continue to develop new ranges within stationery and successfully launched educational toys during the year which enhanced our strong children's offer. As part of the development of the category, we have also relaunched our online personalised greetings cards offer through our Funky Pigeon brand.

Books:

In Books, LFL sales were down 3% but gross margin was up year on year. The books market was soft, however performance varied by sub-category, with fiction up year on year, kids flat and non fiction down with the reduction in sales of celebrity biographies being a key driver of market decline over the period. We again saw further good share performance versus the general retail market as we continue to implement our strategy to build our authority as a popular book specialist. The strength of our position was demonstrated by WHSmith receiving the Children's Bookseller of the Year award and securing the rights to launch the new Richard & Judy Book Club, exclusively to WHSmith. We are also building a strong position in the developing eBooks market. In Travel, we have developed our books offer further by extending book charts and launching exclusive early editions of certain key titles in airports.

News and Impulse:

News and Impulse LFL sales were down 2% year on year with an improvement in gross margin. The magazine market continues to be challenging, particularly for monthly magazines and partworks where we are traditionally strong. However, we have maintained our market share. Our expanded bookazine range, now available in both our High Street and Travel stores, has contributed to this market share performance and includes popular titles, such as the iPad Magazine. Impulse categories continued to perform well.

Entertainment:

In Entertainment, we continued with our strategy to reduce steadily our presence in this category. LFL sales were down 42%. During the year we completed the exit from music and multimedia.

Group profit

The Group generated a profit before tax and exceptional items of £89m (2009: £82m), an increase of 9% on the prior year.

£m	2010	2009	Profit Growth %
Travel ¹	53	48	10%
High Street ¹	51	49	4%
Profit from trading operations ¹	104	97	7%
Unallocated central costs	(15)	(14)	
Operating profit ²	89	83	7%
Net finance (charges) / income	-	(1)	
Profit before taxation ²	89	82	9%

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

The results include net finance charges of £nil (2009: £1m) reflecting the higher cash balances during the year.

Exceptional Items

There are no exceptional items in the year ended 31 August 2010. In the prior period, the Group 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 following progress made on the winding up of the USA Travel business.

Fixed Charges Cover

Fixed charges, comprising property operating lease rentals and net finance charges, were covered 1.5 times (2009: 1.5 times) by profit before tax and fixed charges.

Dividends

The Board has proposed a final dividend of 13.3p per share, up 18% on the prior year, giving a total ordinary dividend per share of 19.4p, a 16% increase on the prior year. This increase on the prior year, together with the return of cash to shareholders announced today, reflects the cash generative nature of the Group and the Board's confidence in its future prospects. Subject to shareholder approval the dividend will be paid on 3 February 2011 to shareholders registered at the close of business on 7 January 2011. 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.

Cash Flow

The Group generated free cash flow of £82m. The cash generative nature of both the High Street and Travel businesses is one of the key strengths of the Group.

£m	2010	2009
Operating profit ¹	89	83
Depreciation, amortisation & amounts written off fixed assets	39	41
Working capital	3	11
Capital expenditure	(29)	(28)
Tax	(27)	(23)
Net interest received	1	-
Net provisions	(1)	(1)
Other items	7	6
Free cash flow	82	89

¹ Stated before exceptional items

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

Capital expenditure was £29m in the year, £1m higher than last year. In 2010, we opened 33 new Travel units including Kingston upon Thames and Woking, and 8 High Street stores including Clitheroe, Amersham and Thirsk. We continue to invest in maintaining our retail properties and during the period we have undertaken refurbishments in both High Street and Travel stores. In the current year, we expect capital expenditure to be around £35m.

£m	2010	2009
New stores and store development	8	10
Refurbished stores	10	9
Systems	8	6
Other	3	3
Total	29	28

Net Funds

The movement in net funds position is as follows:

£m	2010	2009
Opening net funds / (debt)	45	(9)
Free cash flow	82	89
Equity dividends paid ¹	(26)	(23)
Pension deficit funding	(13)	(10)
Net purchase of own shares	(4)	(8)
Tax refund and associated interest received	7	6
Return of cash to shareholders	(35)	-
Closing net funds	56	45

¹ Dividends paid include interim and final dividends paid.

In addition to the £82m of free cash flow generated in the year, the Group has seen a net cash outflow of £36m in relation to non trading operations. This includes £26m of dividend payments, £13m pension funding and a tax refund of £7m. During the year, the Group completed a £35m return of cash to shareholders by way of an on-market share buyback programme.

As at 31 August 2010, the Group had net funds of £56m with net cash of £56m. The Group has committed working capital facilities of £90m through to June 2011. The Group continues to be highly cash-generative, and preliminary discussions have commenced with banks regarding an appropriate new facility. As a result, the Group is confident that an appropriate committed facility will be in place by June 2011.

Balance Sheet

The Group had net assets of £186m at the end of the period, a decrease of £2m since 31 August 2009, reflecting the cash generated during the year and the £35m return of cash to shareholders through a rolling share buyback.

£m	2010	2009
Goodwill and other intangible assets	56	56
Property plant and equipment	158	163
	214	219
Inventories	151	151
Payables less receivables	(200)	(192)
Working capital	(49)	(41)
Derivative financial asset	-	1
Net current and deferred tax liability	(26)	(26)
Provisions	(8)	(8)
Operating assets employed	131	145
Net funds	56	45
Net assets excluding pension liability	187	190
Pension liability	(1)	(2)
Total net assets	186	188

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	96%	24%
High Street	134	38%	15%
Retail	189	55%	19%
Unallocated central items	(58)		
Operating assets employed	131	68%	18%

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 57 per cent (17 per cent - after capitalised operating leases).

Pensions

Following the completion of the last triennial valuation at 31 March 2009 of the main defined benefit pension scheme, the WHSmith Pension Trust, had an actuarial deficit of £113m. The Liability Driven Investment structure continues to perform well. The scheme is closed to new members and, from 2007, closed to defined benefit service accrual.

The Group's IAS 19 pension deficit of £1m relates to the relatively small UNS defined benefit pension scheme. The IAS 19 deficit on the WHSmith Pension Trust at 31 August 2010 was £nil. There is an actuarial deficit due to the different assumptions and calculation methodologies used compared to 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 10-15 year term, subject to five year upwards-only rent reviews. The Travel stores operate mainly through turnover related leases, usually with minimum rent guarantees, and generally varying in length from five to ten years.

The business has an annual minimum net rental commitment of £161m (2009: £160m) (net of £7m of external rent receivable (2009: £7m)). The total future rental commitment at the balance sheet date amounted to £1,047m (2009: £1,039m) 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 £40m (2009: £50m).

Management Investment Plan 2010

Following consultation with shareholders the Company intends to make further awards to executives under the WH Smith Management Investment Plan ('MIP'). 80% of the award is dependent on the satisfaction of an EPS performance target. Threshold performance will be achieved if the compound rate of EPS growth is equal to 7 per cent per annum with maximum performance achieved at a compound growth rate equal to 12 per cent per annum. 20% of the award is dependent on the satisfaction of a TSR performance target where threshold performance requires a median performance relative to the FTSE All Share General Retailers Index and maximum performance requires the Company's TSR to be at the 75th percentile relative to the Index. The performance period for the EPS condition is the 3 years to the 31 August 2013 with the TSR condition measured over the one month period starting on the date of the financial results announcement in October 2013. Further particulars will be included in the Annual Report and Accounts 2010.

INTERIM MANAGEMENT STATEMENT

The Group will issue its Interim Management Statement on 11 November 2010.

WH Smith PLC

Group Income Statement

For the year ended 31 August 2010

£m	Note	2010			2009		
		Before exceptional items	Exceptional items	Total	Before exceptional items	Exceptional items	Total
Continuing operations							
Revenue		1,312	-	1,312	1,340	-	1,340
Operating profit	2	89	-	89	83	-	83
Investment income	4	1	-	1	1	-	1
Finance costs	5	(1)	-	(1)	(2)	-	(2)
Profit before tax		89	-	89	82	-	82
Income tax expense	6	(20)	-	(20)	(18)	-	(18)
Profit after tax from continuing operations		69	-	69	64	-	64
Loss for the year from discontinued operations		-	-	-	-	(1)	(1)
Profit for the year		69	-	69	64	(1)	63
Earnings per share¹							
Basic – continuing operations	7			47.6p			42.7p
Diluted – continuing operations	7			45.7p			41.3p
Basic	7			47.6p			42.0p
Diluted	7			45.7p			40.6p
Non GAAP measures							
Underlying earnings per share²							
Basic – continuing operations	7			47.6p			42.7p
Diluted – continuing operations	7			45.7p			41.3p
Basic	7			47.6p			42.7p
Diluted	7			45.7p			41.3p
Equity dividends per share³				19.4p			16.7p
Fixed charges cover	11			1.5x			1.5x

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 13.3p (2009: 11.3p) and the interim dividend of 6.1p (2009: 5.4p)

WH Smith PLC

Group Statement of Comprehensive Income

For the year ended 31 August 2010

£m	Note	2010	2009
Profit for the period		69	63
Other comprehensive income:			
Actuarial losses on defined pension schemes	12	(12)	(11)
Mark to market valuation of derivative financial instruments		(1)	(1)
Other comprehensive loss for the period, net of tax		(13)	(12)
Total comprehensive income for the period		56	51

WH Smith PLC

Group Balance Sheet

As at 31 August 2010

£m	Note	2010	2009	2008
Non-current assets				
Goodwill		32	32	32
Other intangible assets		24	24	23
Property, plant and equipment		158	163	177
Deferred tax assets		10	9	11
Trade and other receivables		4	4	4
		228	232	247
Current assets				
Inventories		151	151	147
Trade and other receivables		57	56	66
Current tax asset		21	7	4
Derivative financial assets		-	1	2
Cash and cash equivalents	9	56	47	22
		285	262	241
Total assets		513	494	488
Current liabilities				
Trade and other payables		(246)	(242)	(239)
Current tax liabilities		(51)	(34)	(31)
Obligations under finance leases	9	-	(2)	(4)
Bank overdrafts and other borrowings		-	-	(25)
Short-term provisions		(3)	(3)	(4)
		(300)	(281)	(303)
Non-current liabilities				
Retirement benefit obligation	12	(1)	(2)	-
Deferred tax liabilities		(6)	(8)	(10)
Long-term provisions		(5)	(5)	(4)
Obligations under finance leases		-	-	(2)
Other non-current liabilities		(15)	(10)	(8)
		(27)	(25)	(24)
Total liabilities		(327)	(306)	(327)
Total net assets		186	188	161
Total equity		186	188	161

WH Smith PLC

Group Balance Sheet

As at 31 August 2010 (continued)

£m	Note	2010	2009	2008
Shareholders' equity				
Called up share capital		33	35	35
Share premium		1	-	-
Capital redemption reserve		4	2	2
Revaluation reserve		2	2	2
ESOP reserve		(29)	(28)	(28)
Hedging reserve		-	1	2
Translation reserve		(2)	(2)	(2)
Other reserve		(191)	(187)	(179)
Retained earnings		368	365	329
Total equity		186	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 14 October 2010 and were signed on its behalf by:

Kate Swann

Group Chief Executive

Robert Moorhead

Group Finance Director

WH Smith PLC

Group Cash Flow Statement

For the year ended 31 August 2010

£m	Note	2010	2009
Net cash inflow from operating activities	10	104	113
Investing activities			
Interest received		1	1
Purchase of property, plant and equipment		(24)	(23)
Purchase of intangible assets		(5)	(5)
Net cash outflow from investing activities		(28)	(27)
Financing activities			
Interest paid		-	(1)
Dividend paid		(26)	(23)
Purchase of own shares for cancellation		(35)	-
Net purchase of own shares for employee share schemes		(4)	(8)
Repayments of borrowings		-	(25)
Repayments of obligations under finance leases		(2)	(4)
Net cash used in financing activities		(67)	(61)
Net increase in cash and cash equivalents in year		9	25
Opening net cash and cash equivalents		47	22
Closing net cash and cash equivalents		56	47

Reconciliation of net cash flow to movement in net funds / (debt)

£m	Note	2010	2009
Net funds / (debt) at beginning of the year		45	(9)
Increase in cash and cash equivalents		9	25
Decrease in debt		-	25
Net movement in finance leases		2	4
Net funds at end of the year	9	56	45

WH Smith PLC

Group Statement of Changes in Equity

For the year ended 31 August 2010

£m	Share capital and share premium	Capital redemption reserve	Revaluation reserve	ESOP reserve	Hedging and translation reserves	Other reserve	Retained earnings	Total
Balance at 1 September 2009	35	2	2	(28)	(1)	(187)	365	188
Total comprehensive (loss) / income for the period	-	-	-	-	(1)	-	57	56
Recognition of share-based payments	-	-	-	-	-	-	7	7
Premium on issue of shares	1	-	-	-	-	-	-	1
Dividends paid	-	-	-	-	-	-	(26)	(26)
Employee share schemes	-	-	-	(1)	-	(4)	-	(5)
Purchase of own shares for cancellation	(2)	2	-	-	-	-	(35)	(35)
Balance at 31 August 2010	34	4	2	(29)	(2)	(191)	368	186
Balance at 1 September 2008	35	2	2	(28)	-	(179)	329	161
Total comprehensive (loss) / income for the period	-	-	-	-	(1)	-	52	51
Recognition of share-based payments	-	-	-	-	-	-	6	6
Current tax on share-based payments	-	-	-	-	-	-	1	1
Dividends paid	-	-	-	-	-	-	(23)	(23)
Employee share schemes	-	-	-	-	-	(8)	-	(8)
Balance at 31 August 2009	35	2	2	(28)	(1)	(187)	365	188

The 'Other' reserve includes reserves created in relation to the historical capital reorganisation, proforma restatement and the demerger from Smith News PLC in 2006, as well as movements relating to employee share schemes of £4m (2009: £8m).

WH Smith PLC

Notes to Accounts

1. Preparation of the preliminary announcement

a) Basis of preparation

Whilst the information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (“IFRSs”) as adopted for use in the European Union and as issued by the International Accounting Standards Board, this announcement does not itself contain sufficient information to comply with IFRSs.

The preliminary announcement for the 12 months to 31 August 2010 has been prepared on a consistent basis with the financial accounting policies set out in the Accounting Policies section of the WH Smith PLC Annual Report and Accounts 2009 except as described below.

The Group has adopted the following standards which became mandatory during the current financial year:

IAS 1 (revised 2007) Presentation of Financial Statements

IAS 1 (2007) has introduced a number of changes in the format and content of the financial statements, including the renaming of the “Statement of Recognised Income and Expenditure” to the “Statement of Comprehensive Income”. The revised standard requires the presentation of a third balance sheet whenever previously reported information is restated or an accounting policy is applied retrospectively. IFRS 2 (amended) and IFRS 8 were adopted in the period, and applied retrospectively. While the adoption of both of these standards resulted in no change to the 2008 balance sheet as previously presented, a balance sheet as at 31 August 2008 has been included in accordance with IAS 1.

A full explanation of the impact of IFRS 8 is provided in Note 3.

During the period the Group adopted IFRS 2 (amended). This amendment clarifies the treatment of vesting conditions and cancellations of share-based payments. The amendment has been applied retrospectively and has not resulted in any change to previously reported profits or total equity.

Other new accounting standards from the IASB and interpretations from IFRIC which become mandatory for the first time during the current financial year but which have no material impact on the Group’s financial statements are:

IFRS 3 (Revised)	Business combinations
Amendments to IFRS 7	Improving disclosures about financial instruments
Amendments to IAS 23	Borrowing costs
Amendments to IAS 27	Consolidated and separate financial statements
Amendments to IAS 38	Intangible assets
Amendments to IAS 39	Eligible hedged items

b) Preliminary announcement

The financial information contained within this preliminary announcement for the 12 months to 31 August 2010 and 12 months to 31 August 2009 do not comprise statutory financial statements for the purpose of the Companies Act 2006, but are derived from those statements. The statutory accounts for WH Smith PLC for the 12 months to 31 August 2009 have been filed with the Registrar of Companies and those for the 12 months to 31 August 2010 will be filed following the Company’s annual general meeting.

The auditors’ reports on the accounts for both the 12 months to 31 August 2010 and 12 months to 31 August 2009 were unqualified and did not include a statement under Section 498 (2) or (3) of the Companies Act 2006. The auditors’ reports on the accounts for the 12 months to 31 August 2008 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 available for shareholders in November 2010.

WH Smith PLC
Notes to Accounts

2. Group operating profit

£m	2010	2009
Turnover	1,312	1,340
Cost of sales	(650)	(685)
Gross profit	662	655
Distribution costs ¹	(495)	(496)
Administrative expenses	(80)	(81)
Other income ¹	2	5
Group operating profit	89	83

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 (2009: £3m).

£m	2010	2009
Cost of inventories recognised as an expense	650	685
Write-down of inventories in the period	6	8
Depreciation and amounts written off property, plant and equipment	34	37
Amortisation and amounts written off intangible assets	5	4
Net operating lease charges		
- land and buildings	181	180
- equipment and vehicles	1	-
Other occupancy costs	62	58
Staff costs	203	202

3. Segmental analysis of results

IFRS 8 'Operating Segments' was issued in November 2006. It replaces IAS 14 'Segmental Reporting' and requires operating segments to be disclosed on the same basis as that used for internal reporting. The Group has adopted IFRS 8 during the year, however this has not resulted in a change to the Group's reportable segments. 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 operating segment information.

a) Group revenue

£m	2010	2009
Continuing operations:		
Travel	452	448
High Street	860	892
Group revenue	1,312	1,340

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3. Segmental analysis of results (continued)

b) Group results

£m	2010	2009
Continuing operations:		
Travel	53	48
High Street	51	49
Trading profit	104	97
Unallocated costs	(15)	(14)
Group operating profit	89	83
Investment income	1	1
Finance costs	(1)	(2)
Income tax expense	(20)	(18)
Profit for the year	69	64

4. Investment income

£m	2010	2009
Interest on bank deposits	1	1
	1	1

5. Finance costs

£m	2010	2009
Interest payable on bank loans and overdrafts	-	1
Net charge on pension schemes (Note 12)	-	1
Unwinding of discount on provisions	1	-
	1	2

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6. Income tax expense

£m	2010	2009
Tax on profit from continuing operations	27	22
<i>Standard rate of UK corporation tax 28% (2009: 28%)</i>		
Adjustment in respect of prior-year UK corporation tax	(4)	(4)
Total current tax charge - continuing operations	23	18
Deferred tax – current year	(1)	-
Deferred tax – prior year	(2)	-
Tax on profit – continuing operations	20	18
Tax on exceptional items	-	-
Tax on profit – continuing operations	20	18
<i>Effective tax rate on continuing activities</i>	<i>23%</i>	<i>22%</i>

Reconciliation of the taxation charge

£m	2010	2009
Tax on profit from continuing operations at standard rate of UK corporation tax 28% (2009: 28%)	25	23
Tax effect of items that are not deductible or not taxable in determining taxable profit	1	(1)
Adjustment in respect of prior years	(6)	(4)
Tax charge - continuing operations	20	18

The rate of corporation tax will change from 28 per cent to 27 per cent from 1 April 2011. The government has also indicated that it intends to enact future reductions in the corporation tax rate of 1 per cent each year down to 24 per cent by 1 April 2014.

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7. Earnings per share

a) Earnings

£m	2010			2009		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
Underlying earnings attributable to shareholders	69	-	69	64	-	64
Exceptional items net of related taxation	-	-	-	-	(1)	(1)
Earnings attributable to shareholders	69	-	69	64	(1)	63

b) Basic earnings per share

Pence	2010			2009		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
Underlying earnings per share (note i)	47.6	-	47.6	42.7	-	42.7
Exceptional items net of taxation	-	-	-	-	(0.7)	(0.7)
Earnings per share (note ii)	47.6	-	47.6	42.7	(0.7)	42.0

c) Diluted earnings per share

Pence	2010			2009		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
Underlying earnings per share (note i)	45.7	-	45.7	41.3	-	41.3
Exceptional items net of taxation	-	-	-	-	(0.7)	(0.7)
Earnings per share (note ii)	45.7	-	45.7	41.3	(0.7)	40.6

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.

- i) Underlying earnings per share have been calculated using profit after tax but before exceptional items.
- ii) Earnings per share has been calculated using profit after tax and exceptional items.

d) Weighted average share capital

Millions	2010	2009
Weighted average shares in issue for earnings per share	145	150
Add weighted average number of ordinary shares under option	6	5
Weighted average ordinary shares for diluted earnings per share	151	155

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8. Dividends

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

£m	2010	2009
Dividends		
Interim of 6.1p per ordinary share (2009: 5.4p per ordinary share)	9	8
Final of 11.3p per ordinary share (2009: 9.7p per ordinary share)	17	15
	26	23

The proposed dividend of 13.3p per share, amounting to a final dividend of £19m, is not included as a liability in these financial statements and, subject to shareholder approval, will be paid on 3 February 2011 to shareholders on the register at the close of business on 7 January 2011.

9. Analysis of net funds / (debt)

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

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

£m	2008	Cash flow	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

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

The Group has in place a five-year committed 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. Utilisation at 31 August 2010 was £nil (2009: £nil). The Group continues to be highly cash-generative, and preliminary discussions have commenced with banks regarding an appropriate new facility. As a result the Group is confident that an appropriate committed facility will be in place by June 2011.

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10. Net cash inflow from operating activities

£m	2010	2009
Operating profit from continuing operations	89	83
Depreciation of property, plant and equipment	31	34
Impairment of property, plant and equipment	3	3
Amortisation of intangible assets	5	4
Share-based payments	7	6
Increase in inventories	-	(4)
(Increase) / decrease in receivables	(1)	10
Increase in payables	4	5
Pension funding	(13)	(10)
Income taxes paid	(20)	(17)
Charge to provisions	1	-
Cash spend against provisions	(2)	(1)
Net cash inflow from operating activities	104	113

11. Fixed Charges Cover

£m	2010	2009
Net finance charges	-	1
Net operating lease rentals	182	180
Total fixed charges	182	181
Profit before tax and exceptional items	89	82
Profit before tax, exceptional items and fixed charges	271	263
Fixed charges cover - times	1.5x	1.5x

12. 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 12 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	2010	2009
WHSmith Pension Trust	-	-
United News Shops Retirement Benefits Scheme	(1)	(2)
Retirement benefit obligation recognised in the balance sheet	(1)	(2)

WH Smith PLC
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12. Retirement benefit obligation (continued)

a) Defined benefit pension schemes

i) The WHSmith Pension Trust

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

In September 2005, the Pension Trust Trustee adopted a new investment policy. The assets in the investment fund were restructured and substantially invested such that they are expected to alter in value in line with changes in the pension liability caused by changes in interest and inflation (a Liability Driven Investment ('LDI') policy). A full actuarial valuation of the Scheme is carried out every three years with interim reviews in the intervening years. The latest full actuarial valuation of the Pension Trust was carried out as at 31 March 2009 by independent actuaries using the projected unit credit method. Following this valuation, the deficit was £113m, and a revised deficit funding schedule of £11m (subject to indexation) over the following 10 years was agreed with the Trustee. During the year, the Group made a contribution of £13m to the WHSmith Pension Trust (2009: £10m) in accordance with the agreed pension deficit funding schedule and including a catch-up payment relating to the period from 31 March 2009 to the date that the revised contributions started to be paid.

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

£m	2010	2009
Present value of the obligations	(761)	(717)
Fair value of plan assets	855	743
Surplus in the scheme	94	26
Amounts not recognised	(94)	(26)
Retirement benefit obligation recognised in the balance sheet	-	-

The pension scheme is closed to further accrual and given the LDI policy adopted by the Pension Trustees, the present value of the economic benefits of the IAS 19 surplus in the pension scheme of £94m (2009: £26m) available on a reduction of future contributions is £nil (2009: £nil). 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 principal long-term assumptions used in the IAS 19 valuation were:

%	2010	2009
Rate of increase in pension payments and deferred pensions	3.26	3.48
Discount rate	4.87	5.29
Inflation assumptions	3.26	3.48

The amounts recognised in the income statement were as follows:

£m	2010	2009
Current service cost	-	-
Interest cost	(37)	(41)
Expected return on scheme assets	37	40
	-	(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 5). Actuarial gains and losses have been reported in the statement of comprehensive income.

WH Smith PLC
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12. Retirement benefit obligation (continued)

a) Defined benefit pension schemes (continued)

i) The WHSmith Pension Trust (continued)

Total income / (expense) recognised in the Statement of Comprehensive Income ("SOCl"):

£m	2010	2009
Actuarial gains / (losses)	55	(114)
Amounts not recognised	(68)	105
	(13)	(9)

In addition, a £1m credit (2009: £2m charge) has been recognised in the statement of comprehensive income in relation to actuarial gains in the year on the United News Shops Retirement Benefits Scheme.

The total cumulative actuarial loss recognised in the statement of comprehensive income since the 'sectionalisation' of the scheme on demerger from Smith News PLC on 31 August 2006 is £9m (2009: gain of £4m).

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

£m	2010	2009
At 1 September	(717)	(662)
Current service cost	-	-
Interest cost	(37)	(41)
Actuarial losses	(28)	(35)
Benefits paid	21	21
At 31 August	(761)	(717)

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

£m	2010	2009
At 1 September	743	793
Expected return on scheme assets ¹	37	40
Actuarial gains / (losses)	83	(79)
Contributions from the sponsoring companies	13	10
Benefits paid	(21)	(21)
At 31 August	855	743

¹ The actual return on scheme assets was a gain of £120m (2009: loss of £39m)

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

£m	2010	2009
Liquid cash funds	739	732
Inflation swaps	81	(32)
Equity call options	35	43
	855	743

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 2010 this was 4.48 per cent (2009: 5.12 per cent).

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12. Retirement benefit obligation (continued)

a) Defined benefit pension schemes (continued)

i) The WHSmith Pension Trust (continued)

The mortality assumptions (in years) underlying the value of the accrued liabilities for both 2009 and 2010 are:

	2010		2009	
	Male	Female	Male	Female
Life expectancy at age 65				
Member currently aged 65	21.4	23.3	21.3	23.2
Member currently aged 45	23.3	25.1	23.2	25.0
Life expectancy at age 60				
Member currently aged 60	26.1	28.0	26.0	27.9
Member currently aged 45	27.6	29.5	27.5	29.4

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

£m	2010	2009	2008	2007	2006
Present value of defined benefit obligations	(761)	(717)	(662)	(657)	(674)
Fair value of scheme assets	855	743	793	657	608
Surplus / (deficit) in the scheme	94	26	131	-	(66)
Experience adjustments on scheme liabilities					
Amount (£m)	(2)	26	14	22	(7)
Percentage of scheme liabilities (%)	-	(4)	(2)	(3)	1
Experience adjustments on scheme assets					
Amounts (£m)	83	(80)	110	1	(17)
Percentage of scheme assets (%)	10	(11)	14	-	(3)

ii) United News Shops Retirement Benefits Scheme

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

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

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

£m	2010	2009
Present value of the obligations	(5)	(5)
Fair value of plan assets	4	3
Retirement benefit obligation recognised in the balance sheet	(1)	(2)

During the year a £1m credit (2009: £2m charge) has been recognised in the statement of other comprehensive income in relation to actuarial losses in the year on the United News Shops Retirement Benefits Scheme.

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12. Retirement benefit obligation (continued)

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 2010 (2009: £3m).

13. Post-balance sheet event

On 14 October 2010, the Company announced its intention to return up to £50m of cash to shareholders through a rolling share buyback programme.