

WH Smith PLC

Group Profit and Loss Account

For the 12 months to 31 August 2005

£m	Note	2005			2004		
		Before exceptional items & goodwill amortisation	Exceptional items & goodwill amortisation	Total	Before exceptional items & goodwill amortisation	Exceptional items & goodwill amortisation	Total
Turnover							
Continuing operations		2,497	-	2,497	2,520	-	2,520
Discontinued operations		11	-	11	314	-	314
Group Turnover	1	2,508	-	2,508	2,834	-	2,834
Operating profit / (loss)							
Continuing operations		81	(1)	80	51	(93)	(42)
Discontinued operations		-	-	-	21	(10)	11
Group operating profit / (loss)	1,2,3	81	(1)	80	72	(103)	(31)
Net loss on sale of discontinued operations	4	-	(8)	(8)	-	(101)	(101)
Profit on sale of fixed assets – continuing operations	5	-	-	-	-	2	2
Profit / (loss) on ordinary activities before net finance charges		81	(9)	72	72	(202)	(130)
Net finance charges	9	(8)	-	(8)	(5)	-	(5)
Profit / (loss) on ordinary activities before taxation		73	(9)	64	67	(202)	(135)
Tax on profit / (loss) on ordinary activities	10	(18)	-	(18)	(23)	10	(13)
Profit / (loss) on ordinary activities after taxation for the financial year		55	(9)	46	44	(192)	(148)
Dividends (equity and non-equity)	11	(166)	-	(166)	(24)	-	(24)
Retained (losses) / earnings		(111)	(9)	(120)	20	(192)	(172)
Headline earnings per share¹							
Basic – continuing operations	12			31.6p			14.3p
Basic	12			31.6p			19.2p
Diluted	12			31.3p			19.2p
Earnings / (loss) per share²							
Basic – continuing operations	12			30.5p			(20.5)p
Basic	12			26.0p			(60.7)p
Diluted	12			25.7p			(60.7)p
Equity dividends per share	11			13.7p			12.0p
Fixed charges cover – times	13			1.4x			1.3x
Equity dividend cover – times	11			2.0x			-
Equity dividend cover before exceptional items and goodwill amortisation – times	11			2.4x			1.5x

¹ Headline earnings per share excludes exceptional items, goodwill amortisation and FRS 17 pension interest

² Earnings per share is calculated in accordance with FRS 14 (Earnings per share)

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Group Balance Sheet

As at 31 August 2005

£m	Note	2005	2004
Fixed assets			
Intangible assets - goodwill	15	14	164
Tangible fixed assets	16	231	237
Total fixed assets		245	401
Current assets			
Stocks		162	184
Debtors due within one year	17	111	187
Debtors due after more than one year	17	21	25
Cash at bank and in hand	18	46	64
		340	460
Creditors due within one year			
Debt	18	(48)	(17)
Other creditors	19	(346)	(397)
		(394)	(414)
Net current (liabilities) / assets		(54)	46
Total assets less current liabilities		191	447
Creditors due after more than one year			
Debt	18	(46)	(2)
Other creditors	20	(1)	(2)
		(47)	(4)
Provisions for liabilities and charges	21	(31)	(38)
Net assets excluding pension liabilities		113	405
Net pension liabilities	6	(71)	(149)
Total net assets		42	256
Capital and reserves			
Called up share capital	22	4	139
Share premium account	23	17	93
Capital redemption reserve	23	218	156
Revaluation reserve	23	3	3
Other reserve	23	(34)	(27)
Profit and loss account	23	(319)	(110)
Equity shareholders' (liabilities) / funds		(111)	254
Non-equity share capital	22	153	2
Total shareholders' funds		42	256

Approved by the Board of Directors on 13 October 2005.

Kate Swann
Chief Executive

Alan Stewart CA (SA)
Finance Director

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Group Cash Flow Statement

For the 12 months to 31 August 2005

£m	Note	2005	2004
Net cash (outflow) / inflow from operating activities before exceptional operating items	24	(13)	61
Net cash outflow from exceptional operating items	24	(9)	(13)
Net cash (outflow) / inflow from operating activities	24	(22)	48
Returns on investment and servicing of finance			
Interest received		4	1
Interest paid		(5)	(1)
Net charge on pension schemes		(2)	(4)
Net cash outflow from returns on investment and servicing of finance		(3)	(4)
Taxation		(4)	(10)
Capital expenditure and financial investment			
Purchase of tangible fixed assets - owned		(32)	(49)
Proceeds on disposal of tangible fixed assets		2	5
Cash outflow from capital expenditure and financial investment		(30)	(44)
Acquisitions and disposals			
Proceeds on disposal of subsidiary undertakings		222	64
Proceeds on disposal of associated undertakings		-	1
Non-operating disposal costs		(10)	(23)
Net cash in subsidiaries disposed		-	(11)
Cash inflow from acquisitions and disposals		212	31
Equity dividends paid		(21)	(42)
Cash inflow / (outflow) before financing		132	(21)
Financing			
Purchase of shares for employee share schemes		(12)	-
Money returned to ESOP Trust after share capital reorganisation		5	-
Issue of shares to satisfy employee share schemes		2	-
Non-equity dividend		(143)	-
Repurchase of 'C' shares		(62)	-
Increase / (decrease) in debt (net of financing costs)		61	(3)
Capital element of finance leases		(1)	-
Cash outflow from financing		(150)	(3)
Decrease in cash		(18)	(24)
Reconciliation of net cash flow to movement in net funds			
£m		2005	2004
Net funds at the start of the year		45	68
Decrease in cash in the year		(18)	(24)
(Increase) / decrease in debt		(62)	3
New finance leases		(13)	-
Currency translation differences		-	(2)
Net (debt) / funds at the end of the year	18	(48)	45

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Group Statement of Total Recognised Gains and Losses

For the 12 months to 31 August 2005

£m	Note	2005	2004
Profit / (loss) for the financial year		46	(148)
Actuarial loss relating to the pension scheme	6	(42)	(15)
UK deferred tax attributable to the pension scheme liabilities		(27)	(3)
UK current tax attributable to the additional pension scheme contributions		39	7
Currency translation differences		-	(7)
Total recognised gains / (losses) for the financial year		16	(166)

Group Note of Historical Cost Profits and Losses

For the 12 months to 31 August 2005

£m	2005	2004
Reported profit / (loss) on ordinary activities before taxation	64	(135)
Realisation of property revaluation gains of the previous year	-	1
Historical costs profit / (loss) on ordinary activities before taxation	64	(134)
Historical cost loss for the year retained after taxation, minority interests and dividends	(120)	(171)

Reconciliation of Movements in Group Shareholders' Funds

For the 12 months to 31 August 2005

£m	Note	2005	2004
Shareholders' funds at beginning of year		256	407
Retained losses		(120)	(172)
Repurchase of non-equity share capital		(62)	-
Purchase of own shares for employee share scheme		(12)	-
Money returned to ESOP Trust after share capital reorganisation		5	-
Employee share schemes		5	-
Goodwill previously written off directly to reserves now transferred to profit and loss account for the year on sale of USA Travel Retail business	4	-	39
Net gains and losses relating to pension scheme		(30)	(11)
Currency translation differences		-	(7)
Net reduction to shareholders' funds		(214)	(151)
Shareholders' funds at end of year		42	256

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Notes to the Accounts

For the 12 months to 31 August 2005

1 Segmental analysis of results

(a) Segmental analysis of group turnover

£m	2005	2004
Continuing operations:		
Retailing		
High Street Retail	1,112	1,152
Travel Retail	311	301
Total	1,423	1,453
News Distribution		
Total turnover	1,187	1,182
Internal turnover	(113)	(115)
Total	1,074	1,067
Turnover – continuing operations	2,497	2,520
Discontinued operations:		
Retailing		
USA Travel Retail	-	49
Aspac Retail	-	132
Total	-	181
Publishing Business		
Total turnover	14	155
Internal turnover	(3)	(22)
Total	11	133
Turnover – discontinued operations	11	314
Group turnover	2,508	2,834

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Notes to the Accounts

For the 12 months to 31 August 2005

1 Segmental analysis of results (continued)

(b) Segmental analysis of group operating profits

£m	2005			2004		
	Before goodwill amortisation	Exceptional operating items and goodwill amortisation	Total	Before exceptional items and goodwill amortisation	Exceptional operating items and goodwill amortisation	Total
Continuing operations:						
Retailing						
High Street Retail	43	(1)	42	23	(77)	(54)
Travel Retail (note a)	26	-	26	21	(5)	16
Total	69	(1)	68	44	(82)	(38)
News Distribution	37	-	37	35	-	35
Trading profit	106	(1)	105	79	(82)	(3)
Support functions	(16)	-	(16)	(15)	(11)	(26)
Pension service costs (note b)	(10)	-	(10)	(14)	-	(14)
Internal rents (note c)	1	-	1	1	-	1
Operating profit / (loss) – continuing operations	81	(1)	80	51	(93)	(42)
Discontinued operations:						
Retailing						
USA Travel Retail	-	-	-	(5)	-	(5)
Aspac Retail	-	-	-	7	(1)	6
Total	-	-	-	2	(1)	1
Publishing Business	-	-	-	20	(9)	11
Pension service costs (note b)	-	-	-	(1)	-	(1)
Operating profit / (loss) – discontinued operations	-	-	-	21	(10)	11
Group operating profit / (loss)	81	(1)	80	72	(103)	(31)

a) Travel Retail includes profits of £1m (2004: £1m) generated in Continental Europe.

b) The annual pension service costs in respect of the defined benefit scheme, if allocated between the businesses based on pensionable salaries, would be as follows: High Street Retail £5m (2004: £8m), Travel Retail £1m (2004: £1m), Publishing £Nil (2004: £1m), News Distribution £3m (2004: £4m) and Support functions £1m (2004: £1m). In addition to these pension costs, £3m of contributions has been charged to the individual businesses in respect of the defined contribution pension scheme (see Note 6).

c) 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 (2004: £1m) is shown as a separate credit to the profit and loss account.

d) Exceptional operating items and goodwill amortisation includes goodwill amortisation for the following businesses: High Street Retail £1m (2004: £1m) and Aspac Retail £Nil (2004: £1m).

e) On 1 September 2004 WHSmith Online was integrated into the WHSmith High Street Retail business, the comparable results for the year ended 31 August 2004 were turnover: £7m, operating loss before exceptional items and goodwill amortisation: £2m, exceptional items and goodwill amortisation: £10m, operating loss after exceptional items and goodwill amortisation: £12m.

Exceptional operating items incurred during the prior year are analysed in Notes 2 and 3.

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Notes to the Accounts

For the 12 months to 31 August 2005

1 Segmental analysis of results (continued)

(c) Geographical split

£m	Turnover		Profit / (loss) before taxation		Net assets	
	2005	2004	2005	2004	2005	2004
Continuing operations before exceptional items and goodwill amortisation – UK / Europe	2,497	2,520	73	46	167	139
Exceptional items and goodwill amortisation			(1)	(91)		
Continuing operations – UK / Europe	2,497	2,520	72	(45)	167	139
Discontinued operations before exceptional items and goodwill amortisation:						
UK / Europe	9	110	-	16	-	205
USA	-	49	-	(5)	(6)	11
Asia / Pacific	2	155	-	10	-	5
	11	314	-	21	(6)	221
Exceptional items and goodwill amortisation			(8)	(111)		
Discontinued operations	11	314	(8)	(90)	(6)	221
Net (debt) / funds					(48)	45
Net pension liabilities:						
Continuing operations					(71)	(132)
Discontinued operations					-	(17)
Total Group	2,508	2,834	64	(135)	42	256

Turnover is disclosed by origin. There is no material difference in turnover by destination. Net operating assets by division are analysed in Note 14.

2 Group operating profit

£m	2005			2004		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
Turnover	2,497	11	2,508	2,520	314	2,834
Cost of sales	(1,790)	(4)	(1,794)	(1,882)	(146)	(2,028)
- Pre-exceptional operating items	(1,790)	(4)	(1,794)	(1,836)	(146)	(1,982)
- Exceptional operating items	-	-	-	(46)	-	(46)
Gross profit	707	7	714	638	168	806
Distribution costs	(501)	(4)	(505)	(531)	(99)	(630)
- Pre-exceptional operating items	(501)	(4)	(505)	(517)	(90)	(607)
- Exceptional operating items	-	-	-	(14)	(9)	(23)
Administrative expenses	(126)	(3)	(129)	(149)	(58)	(207)
- Pre-exceptional operating items and goodwill amortisation	(125)	(3)	(128)	(116)	(57)	(173)
- Exceptional operating items	-	-	-	(32)	-	(32)
- Goodwill amortisation	(1)	-	(1)	(1)	(1)	(2)
Group operating profit / (loss)	80	-	80	(42)	11	(31)

The exceptional operating items are detailed in Note 3.

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Notes to the Accounts

For the 12 months to 31 August 2005

2 Group operating profit (continued)

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

£m	2005			2004		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
Depreciation and amounts written off tangible fixed assets	42	-	42	41	5	46
Net operating lease charges						
- land and buildings	145	-	145	139	25	164
- equipment and vehicles	10	-	10	13	7	20
Other occupancy costs	47	-	47	49	3	52
Staff costs (Note 7)	273	2	275	278	58	336

Fees payable to Deloitte & Touche LLP, the Group's auditors, included in the profit and loss account relating to audit fees amount to £0.3m (2004: £0.4m), and non-audit fees of £0.2m (2004: £2.0m) which comprise audit related regulatory work £nil (2004: £0.1m), further assurance services £nil (2004: £1.2m), tax compliance services £0.1m (2004: £0.3m), tax advisory services £nil (2004: £0.4m) and IFRS preparation work £0.1m (2004: £nil). In addition, The Pension Trust and WHSmith Retirement Savings Plan incurred another £0.1m in respect of audit and other fees (2004: £0.1m).

3 Exceptional operating items

Current year

No exceptional operating charges have been made in the year ended 31 August 2005.

Prior year

In the prior year, the following exceptional charges were made:

a) UK Retailing

An exceptional operating charge of £81m was made relating to UK Retailing. Of this amount, £45m related to the carrying value of stock to reflect redundant and slow moving items. A fixed asset impairment charge of £20m was made in respect of costs of research work on our concept store, systems development for Travel Retail, and an impairment charge covering goodwill and assets in relation to WHSmith Online. A charge of £12m related to the redundancy and associated costs relating to the internal restructuring of UK Retailing, which led to a material reduction in the number of staff at the London and Swindon locations. A further £4m was written off relating to other items.

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 relating to unearned author advances in the Publishing business, 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.

The tax effect of the operating exceptional items is disclosed in Note 10 to the accounts.

4 Net loss on sale of discontinued operations

£m	2005	2004
Loss on sale of USA Travel Retail (note a, note d)	(8)	(62)
Provision for loss on disposal on sale of Publishing Business (note b, note e)	-	(48)
Profit on sale of Aspac Retail (note c, note d)	-	10
Other	-	(1)
Net loss on sale of discontinued operations	(8)	(101)

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Notes to the Accounts

For the 12 months to 31 August 2005

4 Net loss on sale of discontinued operations (continued)

Current Year

a) Provisions for discontinued businesses

An amount of £8m has been charged in the current year to the profit and loss account relating to the disposal of discontinued businesses. Of this amount, £7m relates to an impairment review of the loan notes received as deferred consideration in respect of the disposal of the Group's USA businesses. The balance relates to closure and exit provisions.

b) Publishing Business disposal

On 25 September 2004, the Group completed the disposal of its Publishing Business, Hodder Headline Limited. A financial summary of the disposal is shown below:

£m	Total
Fixed assets	156
Stock	17
Debtors	80
Creditors	(30)
Net pension liabilities	(14)
Net assets disposed	209
Cash consideration	210
Cash received in respect of working capital adjustments	5
Net assets disposed	(209)
Transaction costs and other charges	(6)
Net result on sale of the Publishing Business recognised in the financial year	-

The Group incurred a £5m cash outflow in respect of transaction costs and other charges relating to the Publishing Business disposal.

c) Aspac Retail

During the year ended 31 August 2005, £7m was received for the Aspac Retail disposal, which related to deferred consideration and working capital adjustments.

The tax effect of the non-operating exceptional items has been disclosed in Note 10 to the accounts.

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Notes to the Accounts

For the 12 months to 31 August 2005

4 Net loss on sale of discontinued operations (continued)

Prior Year

d) Sale of USA Travel Retail and Aspac Retail businesses

During the prior year, the Group 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	19	6	25
Total consideration	39	50	89
Net assets disposed	(28)	(37)	(65)
Net liabilities retained	(28)	-	(28)
Transaction costs	(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)

Deferred Consideration

USA 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 was calculated with reference to the draft completion accounts. The deferred consideration of £6m, which was subject to the finalisation of the completion accounts has been received during the year ended 31 August 2005.

e) Provision for loss on sale of Publishing Business

The Group completed the sale of its Publishing Business on 25 September 2004. A provision of £48m was made for the loss on disposal of this business, of which £45m was shown as an impairment of goodwill, and £3m was included in accruals for associated disposal costs.

f) 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 a £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.

5 Profit on sale of fixed assets

In the current year, no profit or loss was recorded on sale of fixed assets.

In the prior year, High Street Retail completed the sale and leaseback of seven freehold properties and sold a further six freehold properties. The profit on the sale of these properties was £2m.

WH Smith PLC

Notes to the Accounts

For the 12 months to 31 August 2005

6 Pensions arrangements

The Group's pension arrangements for employees are operated through a defined benefit scheme (the WHSmith Pension Trust) and a defined contribution scheme (WHSmith Pensionbuilder). The most significant scheme is the defined benefit WHSmith Pension Trust. The assets of the pension plans are held in separate funds administered by Trustees, who are independent of the Group's finances. The trustees have extensive powers over the pension plans' arrangements, including the ability to determine the levels of contribution.

The WHSmith Pension Trust

The latest full actuarial valuation of the Scheme was carried out as at 31 March 2003 by independent actuaries, Mercer Human Resource Consulting, using the market value basis. A full actuarial valuation of the Scheme is carried out every three years with interim reviews in the intervening years. This scheme was closed in September 1995 and under the projected unit method the current service cost would be expected to increase as members approach retirement and the aged profile of members increases.

Pension valuations

The valuation of the Group's defined benefit pension scheme used for the FRS 17 disclosures is based upon the most recent actuarial valuation, which, has been updated by professionally qualified actuaries (Mercer Human Resource Consulting) to take into account the requirements of FRS 17, and to assess the liabilities of the scheme at 31 August 2005. Scheme assets are stated at their market value at 31 August 2005.

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

%	2005	2004	2003
Rate of increase in salaries	3.7%	4.5%	4.4%
Rate of increase in pensions payments and deferred pensions	2.7%	2.8%	2.7%
Discount rate	4.9%	5.6%	5.5%
Inflation assumptions	2.7%	2.8%	2.7%

The aggregate fair values of the assets in the Group's defined benefit scheme, the aggregate net pension liabilities and their expected weighted average long-term rates of return at 31 August 2005 were:

	2005		2004		2003	
	£m	%	£m	%	£m	%
Equities	388	7.0	368	7.8	408	7.6
Bonds	485	4.0	308	4.8	219	4.6
Cash	-	3.8	-	4.3	4	4.6
Other	-	-	2	5.5	-	-
Total fair value of assets	873		678		631	
Present value of schemes liabilities	(967)		(883)		(846)	
Deficit in the schemes	(94)		(205)		(215)	
Related deferred tax asset	28		61		64	
Net defined benefit schemes liabilities	(66)		(144)		(151)	
Net retirement medical benefits	(5)		(5)		(5)	
Net pension liabilities	(71)		(149)		(156)	

a) Defined benefit pension schemes

Analysis of the amount charged to operating profit

£m	2005	2004
Current service cost	(10)	(15)

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Notes to the Accounts

For the 12 months to 31 August 2005

6 Pensions arrangements (continued)

Analysis of the amount (charged) / credited to net finance charges

£m	2005	2004
Expected return on pension scheme assets	44	42
Interest on pension scheme liabilities	(46)	(46)
	(2)	(4)

Analysis of the actuarial loss in the statement of total recognised gains and losses

£m	2005	2004
Actual return less expected return on pension scheme assets	71	(9)
Experience gains and losses arising on the scheme liabilities	(2)	(8)
Changes in assumptions underlying the present value of the scheme liabilities	(111)	2
	(42)	(15)

Movement in scheme deficit during the year

£m	2005	2004
At beginning of year	(205)	(215)
Current service cost	(10)	(15)
Contributions	142	44
Net finance charge	(2)	(4)
Settlement	3	-
Disposal of subsidiary pension fund	20	-
Actuarial loss	(42)	(15)
Deficit in scheme at end of year	(94)	(205)

History of the weighted average experience gains and losses

	2005	2004	2003	2002	2001
Difference between actual and expected returns on assets:					
Amount (£m)	71	(9)	6	(117)	(180)
% of scheme assets	8%	(1%)	1%	(20%)	(26%)
Experience gains and losses on scheme liabilities:					
Amount (£m)	(2)	(8)	3	(19)	-
% of present value of the scheme liabilities	0%	(1%)	1%	(3%)	-
Total amount recognised in Statement of Total Recognised Gains and Losses					
Amount (£m)	(42)	(15)	(77)	(142)	(215)
% of present value of the scheme liabilities	(4%)	(2%)	(9%)	(20%)	(31%)

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Notes to the Accounts

For the 12 months to 31 August 2005

6 Pensions arrangements (continued)

In September 2005, the Trustees of the WHSmith Pension Trust adopted a new investment policy in order to limit the volatility in the underlying investment performance and reduce the risk of a significant increase in the deficit in the fund. The assets in the investment fund were restructured in order to adopt this policy. This involved the expected liabilities of the scheme being matched by assets that will alter in value as interest and inflation rates change, matching the movements at the same rate as the pension liability changes ("a Liability Driven Investment 'LDI' policy").

The key features of this fund restructuring are as follows:

- 94% of the fund's assets are invested in an LDI structure with a leading international institutional fund manager.
- 6% of the fund's assets have been used to purchase a portfolio of long-dated equity Call options. These represent a notional exposure to underlying equities of some £350m.

The impact of this change in investment policy is to limit the volatility in the fund and the resultant risk of a significant increase in the overall deficit whilst enabling the fund to continue to benefit from any potential higher returns in the equity markets. The overall expected rate of return from the portfolio under the new arrangements is 5.0% in the 2005/06 financial year.

Following this change in the investment policy the Board and the Trustees have agreed a new deficit funding agreement that gives the Company significantly greater predictability over the level of future deficit reduction payments. This agreement replaces that reached last year and, subject to certain limited conditions, will result in deficit funding payments of £15m in 2005/06, £17m in 2006/07, £20m in 2007/08 and increasing by RPI (capped at 5%) thereafter until the deficit (as calculated under FRS17) is repaid.

Post retirement medical benefits

WH Smith PLC provides retirement medical benefits to certain pensioners. Total premiums paid during the year in respect of those benefits were £0.4m (2004: £0.4m). The present value of the future liabilities under this arrangement have been assessed by independent actuaries (Buck Consultants (Healthcare) Limited) and this amount is included on the balance sheet, net of deferred taxation under pension and other post retirement liabilities, as follows:

£m	2005	2004
Post retirement medical benefits	(5)	(5)

During September 2005, the members were offered the option to be bought out of this scheme. The financial effect of the proposed settlement of this scheme will be included in the accounts for the financial year ending 31 August 2006.

b) Defined contribution pension scheme

The Group's pension cost charge to its defined contribution scheme, WHSmith Pensionbuilder, for the year amounted to £3m (2004: £2m).

7 Staff costs

£m	2005			2004		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
Wages and salaries	240	2	242	243	52	295
Social security	17	-	17	18	4	22
Net pension cost	13	-	13	17	2	19
Employee share schemes	3	-	3	-	-	-
	273	2	275	278	58	336

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Notes to the Accounts

For the 12 months to 31 August 2005

8 Operating lease commitments

At the year end the Group had the following future commitments in respect of operating leases for the following year:

£m	2005			2004		
	Land and buildings	Equipment and vehicles	Total	Land and buildings	Equipment and vehicles	Total
Annual net lease commitments expiring:						
Within one year	10	2	12	8	1	9
Within two to five years	50	4	54	49	8	57
In more than five years	73	-	73	76	-	76
	133	6	139	133	9	142

9 Net finance charges

£m	2005	2004
Interest payable on bank loans and overdrafts	(8)	(1)
Net charge on pension schemes (Note 6)	(2)	(4)
Unwinding of discount on provisions	(1)	(1)
Interest receivable	3	1
	(8)	(5)

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Notes to the Accounts

For the 12 months to 31 August 2005

10 Taxation

£m	2005	2004
Tax on profit before exceptional items and goodwill amortisation	24	20
- Standard rate of UK corporation tax 30% (2004: 30%)		
Adjustment in respect of prior year UK corporation tax	(5)	(3)
Foreign tax	-	3
Total current tax charge before exceptional items and goodwill amortisation	19	20
Deferred tax – current year	(1)	-
Deferred tax – prior years	-	3
Tax on profit on ordinary activities before exceptional items and goodwill amortisation	18	23
Tax on exceptional items and goodwill amortisation	-	(10)
Tax on profit on ordinary activities after exceptional items and goodwill amortisation	18	13
<i>Effective tax rate on continuing activities before exceptional items and goodwill amortisation</i>	<i>25%</i>	<i>30%</i>

Reconciliation of the taxation charge

£m	2005	2004
Tax on profit on ordinary activities before exceptional items and goodwill amortisation at standard rate of UK corporation tax 30% (2004: 30%)	22	20
Permanent differences	1	1
Depreciation for which no tax relief is available	1	1
Losses not available for Group relief	-	2
Adjustment in respect of prior years	(5)	(3)
Other	-	(1)
Current tax charge before exceptional items and goodwill amortisation	19	20
Tax on exceptional items and goodwill amortisation at standard rate of UK corporation tax of 30% (2004: 30%)	(2)	(62)
Goodwill	-	28
Disposal of subsidiary undertaking	-	7
Other disallowable expenses	-	7
Write-off of tangible and intangible assets	-	3
Non-allowable provisions	2	7
Current tax charge after exceptional items and goodwill amortisation	19	10
Deferred tax	(1)	3
Tax on profit on ordinary activities after exceptional items and goodwill amortisation	18	13

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Notes to the Accounts

For the 12 months to 31 August 2005

11 Dividends

	2005	2004
Equity dividend per ordinary share		
Interim	4.5p	4.0p
Final – proposed	9.2p	8.0p
Total dividend per ordinary share	13.7p	12.0p
Non-equity dividend per share		
‘C’ share dividend paid on capital reorganisation (Note 22)	85.0p	-

£m	2005	2004
Equity dividends		
Interim	7	10
Final – proposed	16	14
Total equity dividends	23	24
Non-equity dividends		
‘C’ share dividend paid on capital reorganisation (Note 22)	143	-
Total non-equity dividends	143	-
Total	166	24

	2005	2004
Equity dividend cover – times	2.0x	-
Equity dividend cover before exceptional items and goodwill amortisation – times	2.4x	1.5x

The final dividend will be paid on 7 February 2006 to shareholders registered at the close of business on 6 January 2006. As at 31 August 2005, the Group had 180,887,036 (2004: 250,559,907) ordinary shares in issue.

On 27 October 2004, the Group paid a ‘C’ share dividend of £142,533,945 to the holders of 167,686,994 ‘C’ shares who had elected under the terms of the capital reorganisation to receive the initial ‘C’ share dividend. On payment of this dividend, these ‘C’ shares were converted to deferred shares. The Group paid dividends in respect of those ‘C’ shares not repurchased or converted to deferred shares on 28 February 2005 and 31 August 2005, at a rate of 75 per cent of six month LIBOR, totalling £104,441 and £156,647 respectively. In addition, the Group paid dividends on the ‘B’ shares on 28 February 2005 and 31 August 2005, at a rate of 75 per cent of six month LIBOR, totalling £44,914 and £45,192 respectively.

12 Earnings / (loss) per share

a) Earnings

£m	2005			2004		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
Headline earnings attributable to shareholders	56	-	56	35	12	47
Pension interest net of related taxation	(1)	-	(1)	(3)	-	(3)
Exceptional items net of related taxation	-	(8)	(8)	(81)	(109)	(190)
Goodwill amortisation	(1)	-	(1)	(1)	(1)	(2)
Profit / (loss) attributable to shareholders	54	(8)	46	(50)	(98)	(148)

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Notes to the Accounts

For the 12 months to 31 August 2005

12 Earnings / (loss) per share (continued)

b) Basic earnings / (loss) per share

	2005			2004		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
Headline earnings per share (note a)	31.6p	-	31.6p	14.3p	4.9p	19.2p
Pension interest net of related taxation	(0.6)p	-	(0.6)p	(1.2)p	-	(1.2)p
Exceptional items net of related taxation	-	(4.5)p	(4.5)p	(33.2)p	(44.7)p	(77.9)p
Goodwill amortisation	(0.5)p	-	(0.5)p	(0.4)p	(0.4)p	(0.8)p
Earnings / (loss) per share (note b)	30.5p	(4.5)p	26.0p	(20.5)p	(40.2)p	(60.7)p

a) Headline earnings per share has been calculated using profit after tax but before exceptional items, goodwill amortisation, and FRS 17 net interest charges on the defined benefit pension scheme.

b) Basic earnings per share has been calculated using profit after tax, exceptional items and goodwill amortisation

c) Diluted earnings / (loss) per share

	2005			2004		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
Headline earnings per share	31.3p	-	31.3p	14.3p	4.9p	19.2p
Pension interest net of related taxation	(0.6)p	-	(0.6)p	(1.2)p	-	(1.2)p
Exceptional items net of related taxation	-	(4.5)p	(4.5)p	(33.2)p	(44.7)p	(77.9)p
Goodwill amortisation	(0.5)p	-	(0.5)p	(0.4)p	(0.4)p	(0.8)p
Earnings / (loss) per share	30.2p	(4.5)p	25.7p	(20.5)p	(40.2)p	(60.7)p

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 at 31 August 2005 will be paid. In the prior year, as the Group recorded a loss from continuing operations, the diluted loss per share is the same as the basic, as any dilutive shares reduce the loss per share for continuing operations.

d) Weighted average share capital

Millions	2005	2004
Weighted average shares in issue for earnings per share	177	244
Add weighted average number of ordinary shares under option	2	-
Weighted average ordinary shares for fully diluted earnings per share	179	244

The weighted average number of ordinary shares in issue is stated after excluding 8,999,860 (2004: 6,682,660) shares held solely for the purpose of satisfying obligations under employee share schemes.

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Notes to the Accounts

For the 12 months to 31 August 2005

13 Fixed charges cover

£m	2005	2004
Interest expense	8	5
Net operating lease rentals	155	184
Property taxes	37	37
Other property costs	10	15
Total fixed charges	210	241
Profit before tax, exceptional items and goodwill amortisation	73	67
Profit before tax, exceptional items, goodwill amortisation and fixed charges	283	308
Fixed charges cover - times	1.4x	1.3x

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

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Notes to the Accounts

For the 12 months to 31 August 2005

14 Segmental analysis of operating assets employed

	Operating assets as at 31 August 2005 £m	Return on capital employed %	ROCE% after capitalised net operating leases including internal rent %	Operating assets as at 31 August 2004 £m	Return on capital employed %	ROCE% after capitalised net operating leases including internal rent %
Continuing operations:						
High Street Retail	187	23%	13%	187	12%	9%
Travel Retail	24	108%	32%	25	83%	24%
UK Retailing	211	33%	16%	212	21%	12%
News Distribution	(25)	-	-	(18)	-	-
Continuing trading operations	186	57%	21%	194	41%	17%
Freehold property	18			21		
Support functions	(13)			(48)		
Provisions for liabilities and charges	(24)			(28)		
Operating assets employed continuing operations	167	48%	19%	139	37%	14%
Discontinued operations:						
USA Travel Retail	1			21		
Aspac Retail	-			-		
Publishing	-			210	9%	9%
Provisions for liabilities and charges	(7)			(10)		
Operating assets employed discontinued operations	(6)			221		
Total operating assets employed	161	50%	19%	360	20%	19%
Net (debt) / funds	(48)			45		
Net assets excluding pension liabilities	113			405		
Net pension liabilities:						
Continuing operations	(71)			(132)		
Discontinued operations	-			(17)		
Total net assets	42			256		

- 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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Notes to the Accounts

For the 12 months to 31 August 2005

15 Goodwill

	£m
Cost:	
At 1 September 2004	226
Disposals	(195)
At 31 August 2005	31
Accumulated amortisation:	
At 1 September 2004	62
Amortised in year	1
Impairment charge in the year	-
Disposals	(46)
At 31 August 2005	17
Net book value	
At 31 August 2005	14
At 1 September 2004	164

Goodwill arising on the earlier acquisitions of John Menzies Retail and TM Retail is regarded by the Directors as having a useful life of 20 years and is therefore amortised through the profit and loss account over this period. At 30 August 2005, the balance of goodwill is £2m in respect of the acquisition of TM Retail and £12m in respect of John Menzies.

The net book value of the goodwill disposed during the year of £149m relates to the disposal of the Publishing Business, which was completed on 25 September 2004.

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Notes to the Accounts

For the 12 months to 31 August 2005

16 Tangible fixed assets

£m	Land and Buildings			Fixtures and Fittings	Equipment and Vehicles	Total
	Freehold Properties	Long-term Leasehold	Short-term Leasehold			
Cost or valuation:						
At 1 September 2004	28	1	168	162	122	481
Additions	-	-	7	12	26	45
Disposals	(1)	-	(1)	(3)	(5)	(10)
Disposal of subsidiary undertakings	-	-	(4)	(1)	(4)	(9)
At 31 August 2005	27	1	170	170	139	507
Accumulated depreciation:						
At 1 September 2004	7	1	89	89	58	244
Depreciation charge	1	-	10	14	16	41
Impairment losses	-	-	-	-	1	1
Disposals	-	-	(1)	(2)	(4)	(7)
Disposal of subsidiary undertakings	-	-	(1)	(1)	(1)	(3)
At 31 August 2005	8	1	97	100	70	276
Net book value						
At 31 August 2005	19	-	73	70	69	231
At 1 September 2004	21	-	79	73	64	237

- a) The Group's property portfolio (of freehold and long-leasehold properties) was last revalued in 1990. Following the implementation of FRS 15 'Tangible fixed assets' the Group has adopted a policy of not revaluing tangible fixed assets. The carrying amounts of tangible fixed assets, previously revalued, have been retained at their book amount in accordance with the transitional provisions of FRS 15.
- b) Freehold properties include assets not depreciated at cost or valuation of £9m (2004: £10m).
- c) Assets held under finance leases, with a cost of £12.6m (2004: £nil) and depreciation of £0.4m (2004: £nil), are included within Equipment and Vehicles.

Freehold and long-leasehold land and buildings

£m	2005	2004
(i) The net book value of freehold and long-leasehold properties comprises:		
Properties – at cost	2	2
– at valuation	17	19
Net book value	19	21
(ii) If shown on an historical cost basis, properties would be stated at:		
Cost	27	28
Depreciation	(11)	(10)
Net book value	16	18

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Notes to the Accounts

For the 12 months to 31 August 2005

17 Debtors

£m	2005	2004
Amounts falling due within one year:		
Trade debtors	37	87
Other debtors	43	74
Prepayments and accrued income	31	26
	111	187
Amounts falling due after more than one year:		
Other debtors	21	25
	132	212

A deferred tax asset of £20m has been recognised at 31 August 2005 (2004: £nil), of which £15m has been included in other debtors falling due within one year and £5m in other debtors due after more than one year. This relates to tax losses resulting from the significant company contributions paid to the WHSmith Pension Trust. The directors are of the opinion, based on recent and forecast trading that the level of profits in future periods will exceed the tax losses incurred as a result of the company's contribution to the WHSmith Pension Trust.

Debtors falling due after more than one year include deferred consideration in respect of the disposal of businesses.

18 Financial assets and liabilities

£m	2005	2004
Cash at bank and in hand	46	64
Debt repayable in one year or less or on demand	(48)	(17)
Debt repayable between two to five years	(44)	-
Debt repayable in more than five years	(2)	(2)
Net (debt) / funds	(48)	45

After taking into account various interest rate swaps, the net debt structure of the group was:

£m	2005	Cashflow	Non-cash	2004
Cash at bank and in hand	46	(18)	-	64
Debt - Sterling floating rate	(50)	(33)	-	(17)
- Sterling fixed rate	(32)	(30)	-	(2)
- Obligations under finance leases	(12)	1	(13)	-
Net (debt) / funds	(48)	(80)	(13)	45

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19 Other creditors (amounts falling due within one year)

£m	2005	2004
Trade creditors	176	209
Corporation tax	27	30
VAT, payroll taxes and social security	16	17
Other creditors	56	58
Accruals and deferred income	55	69
Proposed dividends	16	14
	346	397

20 Other creditors (amounts falling due after more than one year)

£m	2005	2004
Other creditors	1	2

21 Provisions for liabilities and charges

£m	Disposal provisions	Deferred taxation	Non trading property provisions	Total
Gross Provision				
At 1 September 2004	10	15	18	43
Charged / (released) during the year	1	(1)	1	1
Utilised in the year	(4)	-	(5)	(9)
	7	14	14	35
Discount				
At 1 September 2004	-	-	(5)	(5)
Unwinding of discount utilisation	-	-	1	1
At 31 August 2005	-	-	(4)	(4)
Net provision				
At 31 August 2005	7	14	10	31
At 1 September 2004	10	15	13	38

Disposal provisions of £7m arise from commitments in respect of the disposal of the USA Travel Retail businesses. The provisions will be predominantly utilised over the next few years.

The non-trading property provision is the estimated future cost of the Group's onerous leases based on known and estimated rental subleases. The costs include provisions for required dilapidation costs and any anticipated future rental shortfalls. This provision has been discounted at 10 per cent and this discount will be unwound over the respective lives of the leases, which range from the year 2006 through to 2016.

The deferred tax balance comprises the following:

£m	2005	2004
Accelerated capital allowances	16	17
Short term timing differences	(2)	(2)
	14	15

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Notes to the Accounts

For the 12 months to 31 August 2005

22 Called up share capital

(a) Authorised

	2005		2004	
	Number of shares (millions)	Nominal value £m	Number of shares (millions)	Nominal value £m
Equity:				
Ordinary shares of 2 13/81p each	2,305	50	-	-
Ordinary shares of 55.55p each	-	-	333	185
		50		185
Non-Equity:				
'B' shares of 53.75p each	286	153	286	153
'C' shares of 85p each	83	70	-	-
Deferred shares of 85p each	168	143	-	-
		366		153
Total		416		338

(b) Allotted and fully paid

	2005		2004	
	Number of shares (millions)	Nominal Value £m	Number of shares (millions)	Nominal value £m
Equity:				
Ordinary shares of 2 13/81p each	181	4	-	-
Ordinary shares of 55.55p each	-	-	251	139
		4		139
Non-Equity:				
'B' shares of 53.75p each	4	2	4	2
'C' shares of 85p each	10	8	-	-
Deferred shares of 85p each	168	143	-	-
		153		2
Total		157		141

(c) Movement in share capital

£m	Equity		'B' shares of 53.75p each	Non-Equity 'C' shares of 85p each	Deferred shares of 85p each	Total
	Ordinary shares of 2 13/81p each	Ordinary shares of 55.55p each				
At 1 September 2004	-	139	2	-	-	141
Capital reorganisation	4	(139)	-	213	-	78
Converted	-	-	-	(143)	143	-
Cancelled	-	-	-	(62)	-	(62)
At 31 August 2005	4	-	2	8	143	157

The number of ordinary shares of 55.55p issued in the year to 31 August 2005 (during the period 1 September 2004 to 26 September 2004) was 2,593 (2004: 122,477) with a nominal value of £0.001m (2004: £0.068m). Of these, nine were issued in connection with the capital reorganisation and 2,584 were issued on the exercise of share options for a cash consideration of £0.007m (2004: £0.4m).

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Notes to the Accounts

For the 12 months to 31 August 2005

22 Called up share capital (continued)

The number of ordinary shares of 2 13/81p issued in the year to 31 August 2005 (during the period 27 September 2004 to 31 August 2005) was 482,036 (2004: nil) with a nominal value of £0.01m (2004: £nil). These were issued on the exercise of share options for a cash consideration of £1.5m (2004: £nil). Other movements in ordinary shares in the year, due to the restructuring of share capital, are noted in further detail below.

At 31 August 2005, the number of options held under employee share schemes was 17.9 million shares (2004: 16.5 million). The proceeds due to the Company upon exercise of these options would be £47.7m (2004: £59.4m).

On 27 September 2004 the Company 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. The new ordinary shares have a nominal value of 2 13/81p each. This capital reorganisation was effected by a bonus issue of £78m, 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, resulting in the issue of new ordinary shares with a nominal value of £4m and 'C' shares with a nominal value of £213m.

In accordance with the terms of the capital reorganisation, shareholders could elect to sell 'C' shares to the Company at 85p per share following which all such 'C' shares would be cancelled by the Company or to receive the initial 'C' share dividend of 85p per 'C' share following which all such 'C' shares would be converted into deferred shares. On 27 October 2004, as a result of these elections, the Company repurchased 73,182,358 'C' shares for their nominal value of 85p each, a total repurchase amount of £62m and paid an initial 'C' share dividend of £143m in respect of 167,686,994 'C' shares. The remaining 10m 'C' shares may be purchased by the Company (subject to the provisions of the Companies Act 1985) or converted into ordinary shares at the Company's option and carry a net non-cumulative dividend set at a rate that is the lower of 75 per cent of six month LIBOR and 20 per cent per annum. The 'C' shares have limited voting rights. On a return of capital on winding up or otherwise, the holders of the 'C' shares shall be entitled in priority to any payment to the holders of the ordinary and deferred shares, and ranking *pari passu* with the holders of the 'B' shares, to repayment of the nominal capital paid up on the 'C' shares held, together with a sum equal to any outstanding dividend.

The deferred shares may be purchased by the Company (subject to the provision of the Companies Act 1985), at the Company's option for not more than 1p for all the shares and carry no dividend or voting rights. On a return of capital on winding up or otherwise, the holders of the deferred shares shall be entitled after firstly paying to the holders of the 'B' and 'C' shares any amounts owing to them and, secondly, paying to the holders of the ordinary shares the nominal capital paid up plus £100,000 on each ordinary share held, to repayment of the nominal capital paid up on the deferred shares held.

The 'B' shares are redeemable at their nominal value at the shareholders' option during any period declared by the Company, or at the Company's option, or at maturity on 31 August 2008. The 'B' shares carry a net non-cumulative dividend set at a rate that is the lower of 75 per cent of six month LIBOR and 20 per cent per annum and have limited voting rights. On a return of capital on winding up or otherwise, the holders of the 'B' shares shall be entitled in priority to any payment to the holders of the ordinary and deferred shares, and ranking *pari passu* with the holders of the 'C' shares, to repayment of the nominal capital paid up on the 'B' shares held, together with a sum equal to any outstanding dividend.

On a return of capital on winding up or otherwise, the holders of the ordinary shares shall be entitled after paying to the holders of the 'B', 'C' and deferred shares any amounts owing to them, to the repayment of any further amount rateably according to the amounts paid up in respect of each ordinary share.

At 31 August 2004, the Group had 169,072 authorised, allotted and fully paid 5.75 per cent cumulative preference shares in issue, on which dividends were paid half yearly. These preference shares were repurchased and cancelled in full on 20 May 2005.

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Notes to the Accounts

For the 12 months to 31 August 2005

23 Reserves

£m	Share premium account	Capital redemption reserve	Revaluation reserve	Other reserve	Profit & loss account
Reserves at 1 September 2004	93	156	3	(27)	(110)
Loss retained for the year	-	-	-	-	(120)
Bonus issue (Note 22)	(78)	-	-	-	-
Employee share schemes	2	-	-	-	3
Repurchase of shares (Note 22)	-	62	-	-	(62)
Purchase of own shares for employee share schemes	-	-	-	(12)	-
Money returned to ESOP Trust after share capital reorganisation	-	-	-	5	-
Reserves excluding current year pension deficit adjustment	17	218	3	(34)	(289)
Current year net pension deficit adjustment	-	-	-	-	(30)
Reserves at 31 August 2005	17	218	3	(34)	(319)

The profit and loss reserve at 31 August 2005 is stated after writing off previously acquired goodwill of £19m (2004: £19m).

The opening capital redemption reserve was created from the repurchase of ordinary and 'B' shares. The addition during the year relates to the repurchase of 'C' shares after the capital reorganisation (see Note 22).

The 'W H Smith Employees' Share Trust 1999 (the "Trust") holds ordinary shares in WH Smith PLC which may be used to satisfy options and awards granted under the Company's share schemes. 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 8,999,860 shares (2004: 6,682,660) with a nominal value of £194,441 (2004: £3,712,218) and a market value at 31 August 2005 of approximately £33m (2004: £20m). Dividends are waived for all ordinary shares held by the Trust.

The reserves before and after net pension liabilities are:

£m	2005	2004
Profit and loss reserve excluding net pension liabilities	(248)	39
Amount relating to pension liabilities, net of related deferred tax	(71)	(149)
Profit and loss reserve	(319)	(110)

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Notes to the Accounts

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24 Notes to the cash flow statement

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

£m	2005	2004
Operating profit / (loss)	80	(31)
Adjustment for pension funding (note a)	(130)	(25)
Operating exceptional items	-	101
Depreciation and other amounts written off tangible fixed assets	42	46
Amortisation of goodwill	1	2
Decrease / (increase) in stock	6	(17)
Decrease / (increase) in debtors	1	(1)
Decrease in creditors	(7)	(9)
Cash spend against provisions	(6)	(5)
Net cash (outflow) / inflow from operating activities before exceptional operating items	(13)	61
Corporate advisory costs	(9)	-
Internal restructuring of UK Retailing	-	(11)
Other items	-	(2)
Cash outflow relating to exceptional operating items	(9)	(13)
Net cash (outflow) / inflow from operating activities after exceptional operating items	(22)	48

a) For the year ended 31 August 2005, £142m (2004: £44m) cash contributions have been made to the pension schemes. The associated profit and loss charge comprises £10m (2004: £15m) for operating costs and £2m charge (2004: £4m charge) for financing. The Group has made an additional contribution of £130m over and above the required profit and loss charge (2004: £25m additional contribution).

25 Contingent liabilities

£m	2005	2004
Bank and other loans guaranteed	11	20

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 £181m (2004: £201m).

26 Capital commitments

Contracts placed for future capital expenditure approved by the directors but not provided for in these financial statements amounts to £4m (2004: £33m).

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Notes to the Accounts

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27 Analysis of Retail Stores and Selling Space

Number of stores

	1 Sept 2004	Opened	Closed	Disposed	31 Aug 2005
High Street Retail	544	2	(4)	-	542
Travel Retail (note a)	129	3	(5)	-	127
Total Retailing Businesses	673	5	(9)	-	669

Retail selling square feet (000's)

	1 Sept 2004	Opened	Closed	Disposed	31 Aug 2005
High Street Retail	3,056	10	(31)	-	3,035
Travel Retail	214	8	(6)	-	216
Total Retailing Businesses	3,270	18	(37)	-	3,251

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

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Notes to the accounts

For the 12 months to 31 August 2004

28 Preparation of the Preliminary Announcement

(a) Basis of preparation

The preliminary announcement for the 12 months to 31 August 2005 has been prepared on the basis of the accounting policies set out in the Company's Annual Report for the 12 months 31 August 2004.

(b) Preliminary announcement

The financial information for the 12 months to 31 August 2005 and 12 months to 31 August 2004 do not comprise statutory accounts for the purpose of Section 240 of the Companies Act 1985 and have been extracted from the Company's consolidated accounts for the year to 31 August 2004 and the year to 31 August 2005. The statutory accounts for the 12 months to 31 August 2004 have been filed with the Registrar of Companies and those for the 12 months to 31 August 2005 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 2005.