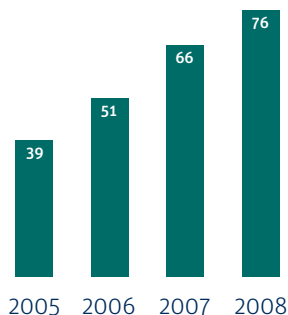


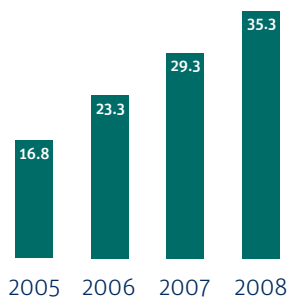
WH Smith PLC has delivered another year of strong profit performance with Group profit before tax and exceptional items 15 per cent ahead of last year at £76m.

The Travel business continues its strong performance and the High Street business again made further progress in line with its plan.

PROFIT BEFORE EXCEPTIONAL ITEMS AND TAXATION (£m)



UNDERLYING DILUTED EARNINGS PER SHARE¹ (p)



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¹ Profit after tax and before exceptional items – diluted



I am pleased to report another year of good progress across the Group. We continued to concentrate on creating shareholder value by improving our profitability and customer offer.

ROBERT WALKER, CHAIRMAN

FOCUSED ON SHAREHOLDER VALUE

I am pleased to report another year of good progress across the Group. We continued to concentrate on creating shareholder value by improving our profitability and customer offer.

During 2008, the Group continued to focus on profitability in both the Travel and High Street businesses, and on the optimal use of our assets; a particular priority was to complete the roll-out of our Post Office and motorway stores and integrating our new Travel acquisitions.

As a result, the Group delivered good profit performance. Group profit before tax and exceptional items was 15 per cent ahead of last year at £76m. A fine achievement, particularly in light of the tough trading environment. Total sales for the Group were up four per cent at £1.35 billion, with like-for-like sales down two per cent. This performance led the Board to recommend a final dividend of 9.7p.

In addition, during the year we returned £90m of cash to shareholders through a special dividend, combined with a share consolidation and an on-market share buy back programme.

This completes another year of our turnaround plan, focused on rebuilding WHSmith's position as Britain's most popular stationer, bookseller and newsagent, improving retailing basics and cost control, driving gross margin, concentrating on our core categories and using our space more effectively. This plan has been executed rigorously and consistently, with significant growth in value for shareholders since January 2004.

Our Travel business continues to make good progress, with significant expansion of the division in the hospital, air and motorway channels following the acquisition of UNS Group Limited and airport units from Alpha Retail UK Limited and a franchise agreement with RoadChef. Travel achieved total sales growth of 22 per cent and increased like-for-like sales by one per cent (excluding tobacco, like-for-like sales were up three per cent). The division's profit¹ was up 14 per cent.

In High Street, we continue to focus on the delivery of our strategy to rebuild our authority in our core categories, optimise margins, keep a tight control of costs and deliver the retail basics. During the year, we made further progress with the implementation of our plan, with margins up and costs well controlled. This approach enabled us to improve profitability¹ by seven per cent, despite sales falling in a challenging market.

During the year, we completed the successful integration of Post Offices into 82 High Street stores and the roll-out of Bureau de Change units to a further 50 High Street stores. This forms part of our strategy to enhance our customer offer and use space in our stores more effectively.

My thanks go to our Travel and High Street staff whose hard work and loyalty has enabled us to achieve these results. Over the past five years, as a result of their efforts, WHSmith's Group profit² has increased by 270 per cent, from £20m to £74m – an achievement that all our staff can be proud of.

Our staff are key to the success of our business and we have extensive training and development programmes to help staff develop their skills and their careers. This year, store managers with potential to move to larger stores or to area management roles have been given the opportunity to take part in development centres and workshops, based on personal development plans. We have also reviewed and improved the training materials for our sales assistants, especially those in Travel stores, to ensure that staff at all levels of the business have the tools they need to broaden their knowledge and skills.

This year, we have built on our long-standing commitment to responsibly manage the environmental and social impact of our business. Environmental efficiency remains a priority and we have implemented a wide-ranging programme of energy efficiency measures and made further progress to reduce carrier bag waste. Our bags are now made from at least 40 per cent recycled plastic. We are also asking customers to 'Think Twice' about using disposable bags as part of a trial to introduce a charge for single-use bags and to offer good quality re-usable bags as an alternative. Promoting literacy and the love of reading continues to be at the heart of our community programmes and, this year, the Summer Read, in partnership with the National Literacy Trust and the WHSmith Group Charitable Trust reached over 3,000 children across the UK.

This completes another year of our plan, focused on rebuilding WHSmith's position as Britain's most popular stationer, bookseller and newsagent.

We benchmark our performance annually against other leading UK companies through the Business in the Community Corporate Responsibility Index. In 2008, we were delighted to improve our performance for the fifth successive year, achieving a Platinum ranking.

There were two changes to the Board during the year. Alan Stewart, Group Finance Director announced his intention to leave the Company to pursue other business interests and will be replaced by Robert Moorhead, who was previously Finance Director of WHSmith Retail, on 1 December 2008. On behalf of the Board, I would like to thank Alan for the significant contribution he has made to WHSmith, and also welcome Robert, who brings a wealth of experience both from within the Company and further afield. Following the departure of MT Rainey, announced last year, we are delighted to welcome Drummond Hall as a non-executive director from 1 September 2008. Drummond is currently Non-Executive Chairman of Mitchells and Butlers PLC and a non-executive director of Taylor Nelson Sofres PLC.

Given the current economic climate, we expect the 2008 Christmas season to be a difficult one. However, we are fully prepared for these trading conditions and are confident that we can continue to improve our performance and deliver further shareholder value. Thank you for your support.

Robert Walker
Chairman, WH Smith PLC

9 October 2008

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

² Group operating profit before exceptional items.



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

KATE SWANN, GROUP CHIEF EXECUTIVE

WH Smith PLC, one of the UK's leading retail groups, is made up of two businesses – Travel and High Street. Our Travel shops sell a tailored selection of Newspapers, Magazines, Books and Confectionery for people on the move and our High Street shops sell a wide range of Newspapers, Magazines, Stationery, Books and Entertainment products.

WHSmith's outlets are frequently first choice for people on the high street and we are a trusted convenience retailer for customers at travel locations. We have an extensive store portfolio operating from 449 Travel units and 557 High Street stores, with market-leading positions in Books, Magazines and Stationery. Overall, WHSmith employs approximately 18,000 staff across the UK.

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

WH Smith PLC is listed on the London Stock Exchange (SMWH) and is part of the FTSE 250 Index. More information about the business is available at www.whsmithplc.co.uk.

WH SMITH PLC: CORPORATE OBJECTIVES

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

We aim to improve the Company's profitability¹ and cash flow generation, delivering sustainable returns and increasing dividends to shareholders. We believe that a concentration on these factors will be reflected in a total shareholder return that compares well with our peer group of equivalent listed companies.

We invest where we believe we will achieve a return on investment above our cost of capital. While external economic and other factors might affect us in the short-term, most of the markets we are focused on are growth sectors, which we believe will deliver sustainable returns.

Travel is focused on delivering value to shareholders through organic growth in its existing outlets, securing new contracts, trialling new formats and through new business development. The division has been performing strongly, with trading profits¹ growing by 14 per cent this year to £41m.

In July 2004, we announced plans to improve the performance of our High Street business. The High Street plan concentrates on rebuilding authority in core categories, optimising margins, controlling costs and ensuring we deliver the retail basics. High Street has made significant progress in the delivery of its plan. In the year to 31 August 2008, trading profits¹ grew by seven per cent to £47m.

We aim to act responsibly towards all our stakeholders, including customers, suppliers, business partners, employees and the communities in which we operate. Our annual Corporate Responsibility Report is available at www.whsmithplc.co.uk/cr, with a summary of our approach on page 20 of this report.

We aim to improve the Company's profitability¹ and cash flow generation, delivering sustainable returns and increasing dividends to shareholders.

WHSMITH TRAVEL

Nature of business

The Travel business trades under the same brand as the High Street stores and operates 449 units in airports, railway stations, motorway service areas and hospitals across the UK. Travel's stores sell a more tailored range of products than High Street stores, to cater for people on the move. Travel's typical customer has less time to browse than the High Street customer and is more interested in reading materials for a journey and quick purchases of food, drink and confectionery. Consequently, there is a limited demand for entertainment and stationery products and the stock and format of each Travel store reflects this.

Due to their location and convenience nature Travel units are, on average, significantly smaller than those in the High Street portfolio. At 31 August 2008, Travel operated from a total of 0.4m square feet of selling space, with units ranging in size from 90 square feet to more than 6,000 square feet. Of the 449 Travel units, 125 are in London and regional airports, 34 are in London railway stations (including Underground stations), 80 are in provincial railway stations, 104 are in motorway service areas and 88 are in hospitals; 17 units are in locations such as bus stations and workplaces. We also operate from one non-UK location, Paris.

Travel has a separate operating structure and management team from High Street, reflecting the distinct operational and strategic challenges of the two businesses. Travel stores are in higher footfall locations than High Street stores, resulting in higher average rents. They are less affected by the Christmas trading period, although increased passenger traffic during the summer holiday season, particularly in airports, contributes to a summer peak in sales.

Markets in which Travel operates

Travel operates in airports, railways, motorway service areas and hospitals in the UK, selling a range of Newspapers, Magazines, Books, Food, Drink and Confectionery products for customers on the move.

Growth drivers

The Travel business offers opportunities for expansion in each of its four channels and continues to win new contracts in hospitals, airports, railway stations and motorway service areas. Long-term forecasts predict that passenger numbers will keep rising and so we expect to see further opportunities to grow our sales. Following rapid progress to establish a presence in the motorway service area and hospital markets, Travel plans to open further units in these channels during the coming year. The business is also developing other Travel store formats such as specialist Book stores and results are encouraging.

Competitive position

Travel operates stores in high footfall locations that are highly dependent on commuter and travelling customer traffic. A trend of increasing passenger numbers in railway stations and airports has led to increased footfall in Travel stores, contributing positively to financial results.

That said, the economic climate, geopolitical events, war and acts of terrorism, such as the London bombings on 7 July 2005 have, from time to time, contributed to a reduction in commuter and travelling customer traffic. Closure of routes, both planned and unplanned, as well as other factors affecting passenger traffic, can also affect operating results.

Travel faces competition in its product categories primarily from other convenience retailers in rail and from category-specific stores in airports. The growth of either retail format may take market share from Travel and have a negative impact on sales and profit.

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

Competitive strengths

Travel has significant competitive strengths. The Board believes it is well placed to deliver strong cash generation and long-term earnings growth to create shareholder value through its:

- Widely recognised and respected brand
- Prime locations within railway stations, airports motorway service areas and hospitals
- High levels of customer footfall
- Market-leading positions in its categories, allowing it to operate with scale
- Purchasing and sourcing scale, driving value for the customer
- Experienced senior management team
- Strong relationships with landlords at travel locations
- Wide reach across the travel retail sector

Travel remains focused on increasing average transaction value, making improvements to trading efficiency, securing new contracts and trialling new formats.

Travel: objectives and strategy

Travel remains focused on increasing average transaction value and conversion, making improvements to trading efficiency, securing new contracts and trialling new formats.

Increasing average transaction value and conversion

Average transaction value increased through:

- Improved product ranges in higher margin categories such as Confectionery, Snacking and Stationery
- Increased promotional activity and improvements in product mix
- More efficient use of space, due to improved queuing systems and increased fixture densities

Making improvements to trading efficiency

Measures include the introduction of:

- Sales-based replenishment
- Extended opening hours and increased flexibility of staff hours
- Improved buying and supplier terms

Securing new contracts and trialling new formats

Initiatives include:

- Negotiations for new contracts in all channels
- Growth of specialist Stationery and Book stores in airports and railway stations
- Further development of opportunities in the motorway service area market
- Growth in the under-developed hospital channel

Travel: risks and uncertainties

WHSmith's management team has identified the following factors as major potential risks to the successful performance of the business. Some, such as IT failures, require specific, identified actions to mitigate their effect. Others, such as the impact of competition, are addressed through strategic planning and operational management processes.

(1) Disruptions in travel

Travel operates in high footfall locations, which are very dependent on commuter and travelling customer traffic. In the past, geopolitical events, wars and acts of terrorism such as the attacks of 11 September 2001 and 7 July 2005 have contributed to decreased levels of customer traffic. Closures in travel routes, both planned and unplanned, may have a material effect on the business if passengers are diverted from key Travel stores.

(2) Loss of tenancy contracts

Travel has a presence in most of the UK's major airports and railway stations. There is no guarantee that licences will be renewed or that Travel will be able to bid successfully for new licences in new locations.

(3) Change of control clauses

The majority of Travel's airport and railway concession agreements contain change of control clauses, giving various rights to the grantor of the concession, such as termination of the contract, in the event of a successful takeover bid for WHSmith.

(4) Poor economic conditions or slowdown

As a UK retailer, Travel is sensitive to the economic climate and can be affected by the general condition of the UK retail and travel markets. An outbreak of a pandemic disease (such as avian flu), an act of terrorism or war could reduce the number of customers visiting WHSmith outlets, causing a decline in revenue and profit.

(5) Competition in the retail industry

Travel operates in highly competitive markets and its failure to compete effectively, with convenience and category-specific retailers may affect revenues obtained through our stores.

(6) Failure or interruption of information technology systems

In common with most retail businesses, Travel relies on a number of important IT systems. Any system performance problems could seriously affect our ability to trade.

(7) Reliance on the WHSmith brand

The WHSmith brand is an important asset. Failure to protect it, an event that materially damaged its reputation and/or the failure to sustain its appeal to customers could have an adverse effect on revenues.

(8) Reliance on key personnel

The performance of the division depends on its ability to continue to attract, motivate and retain key Head Office and store staff. The retail sector is very competitive and the division's people are frequently targeted by other companies for recruitment.

(9) Failure or interruption in product supply

Travel has agreements with key suppliers in the UK, Europe and the Far East. The interruption or loss of supply of core category products from these suppliers to our stores may affect our ability to trade.

Travel: operational review 2007/08

Travel has delivered further good performance with profit up 14 per cent and like-for-like sales up one per cent, achieved as a result of increased sales combined with improved gross margin and tight cost control. Gross margin improved over the period as a result of good category mix management and further buying efficiencies. As in High Street, costs were rigorously controlled.

This year has been one of major expansion for Travel and we finish the year as a leading player in four key sales channels. This follows our announcement in April of the acquisition of UNS Group Limited comprising 72 retail units and eight Caffè Nuovo coffee shops in 62 hospitals, and the acquisition of 23 airport units from Alpha Retail UK Limited. We also reached a franchise agreement with RoadChef to open 29 CTN units, which will significantly enhance our coverage of the motorway network.

This year has been one of major expansion for Travel and we finish the year as a leading player in four key sales channels.

Airports

In our Airport units we delivered robust sales growth of three per cent like-for-like. We continue to deliver performance ahead of passenger growth numbers and have consistently demonstrated our ability to do this.

We made further progress improving our product ranges, for example, increasing the Books chart to the Top 100 fiction titles in a further 100 stores and relaying the fiction backlist to focus on key authors such as John Grisham and Sophie Kinsella. A new Scottish souvenir range has been successfully trialled in Edinburgh and Aberdeen and has now been extended to a further 17 units.

Customer service remains a key focus and we have made some notable enhancements. Following the successful trial of a new handheld till at Stansted, we rolled this out to Heathrow Terminal 5 to enable us to react quickly to the passenger peaks which often occur in airports.

In April, we announced the acquisition of 23 units in 11 airports from Alpha, further strengthening our presence in this long-term growth sector. The process of integrating the new units into our business is well underway with systems and supply chains now integrated. All units have been re-branded and a refit programme will start this autumn to improve the performance of these stores further.

We also made good progress on airport contracts. We renewed four contracts for units at locations including Glasgow and Manchester. We opened 43 new units during the year, including five at Edinburgh and three at Heathrow Terminal 3.

Travel delivered another strong performance with profit up 14 per cent.

Rail

In our Rail channel, like-for-like sales were flat.

As in Airports, customer service and range improvements have been a focus in our Rail business. We are trialling a number of initiatives such as kiosks offering foreign newspapers on demand in St Pancras International, catering for all nationalities. We have also rolled-out lottery terminals to a further 93 rail stores.

We have been working hard developing small formats specifically designed for locations with lower or variable levels of passenger traffic and have been trialling one version of this with SSP in eight of their Pumpkin Cafes.

We made further progress with contracts, renewing a total of four contracts at locations including Oxford and Chester. We opened six new units including one at Ebbsfleet and four at St Pancras International.

Motorway

Since our announcement in November 2006 of plans to open stores in motorway service areas, we have built a strong presence in this channel, bringing the WHSmith offer direct to the motorist.

In April, we reached an agreement with RoadChef to open 29 CTN units which will significantly enhance our coverage of the motorway network. We have currently opened 15 units with the remaining 14 expected to be open by Spring 2009. Although it is still early days, we are seeing encouraging results from the new units, and motorists are clearly pleased to have the opportunity to shop with a well-known high street brand.

As part of the roll-out of the WHSmith format, we have introduced the key strengths of the Travel offer to broaden customer choice, for example, doubling the size of key product ranges like Books and Magazines and adding new ranges like Stationery and Gifting.

Hospitals

The year saw a step change in our representation in this channel. Following our acquisition of UNS in March, our hospital portfolio grew from eight units to 80 retail units and eight coffee shops across 69 hospitals. The sector is attractive for us, being both a growth sector and one where retailing is relatively underdeveloped, giving us opportunities for both organic growth and further space growth.

We have opened one new unit since we acquired UNS and our target is to open, on average, around ten new units a year. We are making good progress with the integration of the UNS units. To date we have brought the store management under the Travel operations structure, integrated systems to maximise efficiency and started to supply products in some categories through our Travel distribution centre. A number of the units have already been re-branded WHSmith and we will complete this process during the course of the year ahead.

Travel: financial review 2007/08

£m	2008	2007	Growth %	LFL Sales Growth %
Revenue	413	338	22%	1%
Profit from trading operations ¹	41	36	14%	

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

Travel delivered another strong performance with sales growth of one per cent on a like-for-like basis. Excluding tobacco, like-for-like sales were up three per cent. Total sales in Travel were up 22 per cent driven by new business development and our expansion into the motorway service area and hospital markets. Profit¹ increased by 14 per cent to £41m (2007: £36m), as a result of increased sales combined with improved underlying gross margin and tight cost control.

Underlying gross margin increased through good category mix management and further buying improvements, resulting in more sales in higher margin categories such as Confectionery and Books. The Travel business now operates from 449 units, including motorway service area franchise units. At 31 August 2008, Travel operated from a total of 0.4m square feet excluding motorway service areas (2007: 0.2m square feet).

WHSMITH HIGH STREET

Nature of business

High Street operates 557 stores. It is present in 85 per cent of the top 500 UK retailing locations and 95 per cent of its stores are in prime locations with high customer traffic. With a presence on nearly every significant high street in the UK, the High Street store portfolio has extensive reach across the UK. At 31 August 2008, High Street operated from a total of 3m square feet of selling space, with stores ranging in size from 777 square feet to more than 23,000 square feet.

High Street sells a wide range of products, which are divided into four categories: News and Impulse (including newspapers, magazines, confectionery and other impulse products), Stationery (including greetings cards), Books, Entertainment (including music, video and multimedia games). High Street's trading is relatively seasonal with peaks at Christmas, Easter and in September for the 'Back to School' range.

The online retail business is operated by High Street and sells a range of Books, Magazines, Stationery, Gifts and Entertainment products through its website at www.whsmith.co.uk. The online business has access to two million book titles and an average of approximately 250,000 visits to the site per week.

In the year to 31 August 2008, High Street had revenues of £939m and trading profit¹ of £47m.

Markets in which we operate

The British Retail Consortium (BRC) categorises our operations (High Street and Travel) in its Other Non-Food sector. While this list is not exhaustive, Other Non-Food includes products such as books, newspapers and magazines, stationery, PC consumables, entertainment products, toys and games, DIY, gardening supplies, electrical appliances and sports and leisure equipment.

Growth drivers

High Street's performance is dependent upon overall growth in consumer spending, growth in the non-food, non-clothing sector and High Street's ability to take share in its product markets.

The management team believes that, following the current slowdown in consumer spending in our markets, we should see a return to more normal levels of growth over the longer term.

Competitive position

High Street's competition comes primarily from other high street specialists, supermarkets and internet retailers. Online retailers offer customers access to our product categories conveniently, while supermarkets give customers access to our product categories as they carry out their regular food shopping.

The growth of either retail format may take market share away from High Street and have a negative effect on the sales and profit generated by our High Street stores.

High Street has significant competitive strengths. The Board believes it is well placed to deliver strong cash generation and long-term earnings growth to create shareholder value.

Competitive strengths

High Street has significant competitive strengths. The Board believes it is well placed to deliver strong cash generation and long-term earnings growth to create shareholder value through its:

- Widely respected and recognised brand
- Prime sites in key UK high street retail locations
- High customer footfall
- Market-leading positions in its target categories, allowing it to operate with scale
- Purchasing and sourcing scale, driving value for the customer
- Experienced senior management team
- Integrated, multi-channel offering, allowing customers to shop in-store or online as well as having products delivered to home or store

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

High Street: objectives and strategy

WHSmith announced its plans for improving the performance of High Street in July 2004. The plan centres on three areas: rebuilding authority in core categories, optimising margins, controlling costs and retail basics.

(1) Rebuilding authority in core categories

Key changes include:

- Re-engineering ranges to concentrate on more profitable categories. This has contributed to a reduction in sales, but has had a beneficial effect on overall margins
- Introducing more price points, new ranges, improved pricing and improved promotions across all categories
- Increasing choice and availability through higher density fixtures and changes to the supply chain
- Rebalancing space towards higher growth and more profitable product categories

The High Street plan centres on three areas: rebuilding authority in core categories, optimising margins, controlling costs and retail basics.

(2) Optimising margins

Margin optimisation measures include:

- A positive shift in product mix by switching sales from low-margin categories such as Entertainment to higher margin categories such as Stationery and Books
- An improved promotions and buying strategy
- A lower cost of goods sold, through improving supplier terms and improved sourcing
- A focus on reducing shrinkage
- A reduction of the overall stock held and more effective management of stock markdowns

(3) Controlling costs and retail basics

Cost control measures include:

- Increased productivity across the business
- Improved flexibility of staff hours
- Rationalisation of logistics through increased efficiency in distribution centres and reduced returns
- Outsourcing and contract renegotiation in IT services to improve efficiency
- Better not-for-resale purchasing

High Street: risks and uncertainties

WHSmith's management team has identified the following factors as major potential risks to the successful performance of the business. Some, such as IT failures require specific, identified actions to mitigate their effect. Others, such as the impact of competition, are areas addressed through strategic planning and operational management processes.

(1) Competition in the retail industry

High Street operates in highly competitive markets and its failure to compete effectively may lower revenues obtained through our stores.

(2) Poor economic conditions or slowdown

As a UK retailer, High Street is sensitive to the economic climate and can be affected by the general condition of the UK retail and travel markets. An outbreak of a pandemic disease (such as avian flu), an act of terrorism or war could reduce the number of customers visiting WHSmith outlets, causing a decline in revenue and profit.

(3) Inability to predict accurately or fulfil customer preference or demand

The retail industry is subject to changing customer tastes. High Street's performance is dependent upon effectively predicting and quickly responding to changing consumer demands. It must also translate market trends into saleable merchandise.

(4) Seasonal fluctuations in sales

High Street is exposed to seasonal demand for certain core categories. Christmas and the Back to School period are critical trading periods and therefore may be affected by depressed consumer footfall or spending, hitting sales and profit.

(5) Failure or interruption in product supply

High Street has agreements with key suppliers in the UK, Europe and the Far East. The interruption or loss of supply of core category products from these suppliers to our stores may affect our ability to trade.

(6) Failure or interruption of information technology systems

In common with most retail businesses, High Street relies on a number of important IT systems. Any system performance problems could seriously affect our ability to trade.

(7) Lack of new store growth opportunities

High Street's stores are already present in most of the major high street locations across the UK. Our ability to grow through expansion of this portfolio may be limited.

(8) Reliance on the WHSmith brand

The WHSmith brand is an important asset. Failure to protect it, an event that materially damaged its reputation and/or the failure to sustain its appeal to customers, could have an adverse impact on revenues.

(9) Reliance on key personnel

The performance of the division depends on its ability to continue to attract, motivate and retain key Head Office and store staff. The retail sector is very competitive and the division's people are frequently targeted by other companies for recruitment.

High Street: operational review 2007/08

The High Street business continues to focus on the implementation of our plan to rebuild our position as Britain's most popular stationer, bookseller and newsagent. We are pleased to report that we are making good progress. Profits¹ for High Street are up seven per cent year on year, delivered through maintaining focus on rebuilding authority in our core categories, tightly controlling costs, optimising margins and delivering the retailing basics.

From a sales perspective, the trading environment continues to be tough. Sales for the year were down two per cent, but gross margins improved by around 190 basis points. Both developments reflect our strategy to rebalance the mix of our business to concentrate on our core categories of Stationery, Books and News and Impulse, and to reduce our reliance on Entertainment.

Cost control remains a core element of our plan. In October 2007, we set a target of cutting costs by £23m over three years. For the full year we delivered savings of £8m from areas of the business including logistics, information systems and stores. We have identified further savings of £10m to be made over the next three years.

Margins rose significantly, largely due to our strategy to rebalance the mix of the business to focus on higher margin categories such as Books and Stationery.

Some of these savings came from our ongoing programme to increase efficiency in key business functions, notably in information systems through further outsourcing and renegotiation of contracts, and in distribution, through better efficiency and reduced returns, as well as a programme of container consolidation which is also helping us to meet our environmental targets on fuel efficiency. In stores, our staff flexibility programme continues, allowing us to flex labour with sales. We are also introducing new initiatives to help our stores run more efficiently, for example new scanning tools to speed up some elements of the stock control process. Carrier bag use remains a focus as we seek to reduce the number of single-use bags we give out, cutting costs as well as reducing plastic waste. This year, we trialled the introduction of charges for single-use carrier bags, offering customers the opportunity to buy a reusable bag instead.

Margins rose significantly, largely due to the strategy mentioned above: to change the mix of products we sell by reducing the amount of focus on low-margin products such as Entertainment, and rebalancing the mix of the business to focus on higher margin categories such as Books and Stationery. We expect further mix changes to be a key driver of overall profit growth in the years to come, without relying on top-line sales growth in the short or medium term. The remaining improvement in gross margin came from better management of promotions, reduced markdowns and improved sourcing.

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

Our Christmas promotional strategy sought to improve gross margins while remaining price competitive. In Books, for example, execution continued to improve with better availability and better pricing compliance in this very competitive trading season. We achieved high market shares in front list titles such as Russell Brand's *My Booky Wook* and Jamie Oliver's *Jamie at Home*, demonstrating the success of our initiatives and their relevance to our customers. In Stationery, the Christmas seasonal categories performed well with strong performance particularly from Christmas wrap, diaries and gifting. We have invested in more customer research this year and will do more for Christmas 2008 ranges.

Work to improve our ranges and deliver effective promotions continues to achieve encouraging results across our core categories.

We successfully managed the cost of goods sold by improving buying terms and improving sourcing. We also maintained our rigorous focus on product shrinkage and markdown management. In Stationery, for example, a clean stock position at the end of the Christmas period contributed to enhanced margins, with some clearance stock successfully channelled through www.whsmith.co.uk.

We continued with our strategy to rebuild our authority as a popular book specialist and to compete more effectively with other high street specialists. We saw further good market share performance versus the general high street.

Work to improve our ranges and deliver effective promotions continues to achieve encouraging results across our core categories. For example, in Stationery, we have introduced a range of 'digital' stationery products to complement our core categories, including products like USB memory sticks as an alternative to traditional paper 'file' storage. In Books, our 'Read of the Week' promotion with *The Times* had a good reception from our customers following its launch in the second half of the year.

Operational improvements remain a priority. In Books, for example, improved in-store execution helped us achieve better pricing compliance during the key Christmas season. The introduction of fast track recalls is also enabling us to effectively recycle stock to improve availability.

We have made good progress with the integration of Post Offices into our stores and now have 82 open, having completed the complex roll-out ahead of schedule. The last Post Office to relocate was to our Liverpool store on 10 July 2008. Customer feedback has been positive. In particular customers have commented on the bright, modern environment, improved customer service and extended opening hours. In April 2007, we announced a further agreement with Post Office Limited to open Bureau de Change units in an additional 50 High Street stores; all these units are now open. A recent agreement with DHL will enable us to bring delivery services to a much wider group of customers through the provision of an easy-to-use DHL service point in 400 stores. These initiatives form part of our strategy to enhance our customer offer and use space more effectively in our stores.

High Street: financial review 2007/08

£m	2008	2007	Growth %	LFL Sales Growth %
Revenue	939	961	[2%]	[3%]
Profit from trading operations¹	47	44	7%	

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

High Street sales were down two per cent and on a like-for-like basis, down three per cent, reflecting our strategy to rebalance the mix of our business. Profits¹ increased by seven per cent to £47m (2007: £44m). We continued to focus on rebuilding authority in our core categories, optimising margins, keeping a tight control of costs and delivering the retail basics.

Gross margin improved by around 190 basis points, driven by rebalancing the mix of our business, low-cost sourcing, better buying and improved markdown management.

Books sales were impacted in the second half of the year by the anniversary of the release of *Harry Potter and the Deathly Hallows* last year. However, gross margin was up, as we continued to implement our strategy to rebuild our authority as a popular book specialist. Stationery like-for-like sales were flat, reflecting a stationery market that has been soft throughout the year. Gross margin was up, driven by intra-category mix, as well as improved seasonal markdown management and increased Far East sourcing. The limited market data we have shows that our share continues to be strong.

News and Impulse saw an improvement in gross margin in the year. The magazine market continues to be challenging but our share in News and Magazines remained broadly stable, supported by successful promotions with major newspapers. In Entertainment, we continued with our strategy to reduce steadily our presence in this category and as we do this, we are optimising profitability. Like-for-like Entertainment sales were down 18 per cent which was in line with our strategy.

High Street delivered £8m of cost savings during the period, in line with our targets. Cost savings came from a number of areas of the business, including closure of off-site stock rooms, container consolidation and scanner efficiencies.

The High Street business now operates from 557 stores, occupying 3m square feet (2007: 3m square feet). We opened nine new stores and closed three. We also reached an agreement in April with Martin McColl to acquire seven high street stores, supporting our strategy to move into un-served catchments.

OUTLOOK

We have delivered a strong profit performance across the Group in the year, with growth in profit demonstrating our relative resilience in challenging trading conditions. In Travel we have seen another good performance and have also made good progress with the initial integration of the acquisitions we made in the year. In High Street we have continued to deliver our strategy to rebuild our authority in our core categories and have increased profit as we do this. My thanks go to our staff without whose efforts we could not have delivered these results.

In the year ahead, we will continue to implement our strategy. We expect the consumer environment to remain challenging and this is likely to mean that Christmas will be very competitive. We have experience of operating in this kind of trading environment and have planned accordingly. We will not chase sales at the expense of profit but will concentrate on profitable activity, while consistently delivering a solid operational performance and the retail basics.

Kate Swann
Group Chief Executive, WH Smith PLC
9 October 2008

We have delivered a strong profit performance across the Group in the year, with growth in profit demonstrating our relative resilience in challenging trading conditions.



The Group has delivered a good profit performance, with profit before tax and exceptional items increasing by 15 per cent to £76m.

ALAN STEWART, GROUP FINANCE DIRECTOR

The Group generated a profit before tax and exceptional items of £76m (2007: £66m), an increase of 15 per cent on the prior year. Profit from trading operations increased to £88m, up ten per cent on the prior year.

Travel continued its strong performance, with profit¹ increasing by 14 per cent to £41m, and good sales and underlying margin growth. During the year we made substantial progress in business development through the acquisitions of UNS Group Limited and airport units from Alpha Retail UK Limited and an agreement with RoadChef. This year has been one of major expansion for Travel and we finish the year as a key player in four sales channels.

High Street profit¹ was £47m, up seven per cent on the prior year. We are continuing with our strategy to rebalance the mix of our business towards our core categories, reducing our presence in entertainment, and to optimise margins and maintain tight cost control.

Total Group sales were up four per cent to £1,352m (2007: £1,299m) with like-for-like (LFL) sales down two per cent. Travel sales grew by 22 per cent to £413m, up one per cent on a LFL basis (excluding tobacco, LFL sales were up three per cent). High Street sales were down two per cent at £939m and down three per cent on a LFL basis.

Underlying earnings per share² increased by 20 per cent to 35.3p (2007: 29.3p), with earnings per share (including exceptional items) of 35.3p (2007: 33.1p)³. Earnings per share calculations reflect both a lower basic weighted average number of shares in issue, following the share buyback and share consolidation, together with an increase in the effective rate of tax from 20 per cent last year to 23 per cent in the current year.

Cash generation in the period has remained strong. Group free cash flow was £63m (2007: £81m). As a result of acquisitions and business gains, we have spent an additional £7m on capital expenditure compared with the prior year. Our working capital position has improved, notwithstanding the increased stock that the acquisitions and our new stores have required.

The Company completed a £90m return of cash to shareholders during the year. This was achieved through a special dividend of 33p per ordinary share, combined with a share consolidation of 67 new ordinary shares for every 74 existing shares and an on market share buyback programme.

At 31 August 2008, the Group had net assets of £161m (2007: £227m). The decrease reflects the £90m return of cash to shareholders in the period. At year end net debt was £9m and the Group had committed working capital facilities of £90m through to June 2011.

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

² Profit after tax and before exceptional items – diluted.

³ EPS as per IAS 33 – diluted. Includes non cash exceptional gain of £10m in the prior year.

The Board has proposed a final dividend of 9.7p per share. This is an increase of 20 per cent on the prior year which, together with the interim dividend and the return of cash to shareholders announced on 31 January 2008, reflects the Board's confidence in the continuing strong cash generative nature of the business.

GROUP INCOME STATEMENT

Revenue

Group revenue increased to £1,352m from £1,299m over the year driven by substantial progress in business development and acquisitions. The like-for-like (LFL) sales decline over the period was two per cent.

£m	2008	2007	Growth %	LFL Sales Growth %
High Street	939	961	(2%)	(3%)
Travel	413	338	22%	1%
Total	1,352	1,299	4%	(2%)

High Street sales were down two per cent and on a LFL basis down three per cent, reflecting our strategy to rebalance the mix of our business. Second half sales were in line with our expectations and reflected the publication of *Harry Potter and the Deathly Hallows* in the comparable period in the prior year.

Travel sales grew by one per cent on a LFL basis in the period; excluding tobacco LFL sales were up three per cent. Total sales in Travel were up 22 per cent driven by new business development and our expansion into the motorway service area and hospital markets.

Profit before exceptional items and taxation

The Group generated a profit before tax and exceptional items of £76m (2007: £66m), an increase of 15 per cent year on year. Profit from trading operations¹ increased from £80m to £88m, an increase of ten per cent on the prior year.

£m	2008	2007	Profit Growth %
High Street ¹	47	44	7%
Travel ¹	41	36	14%
Trading operations profit¹	88	80	10%
Central costs	(15)	(14)	
Internal rents	1	1	
Operating profit²	74	67	10%
Net finance income / (charges)	2	(1)	
Profit before taxation²	76	66	15%

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

² Stated before exceptional items.

The £8m increase in profit from trading operations is discussed in detail in the respective business reviews. High Street delivered a profit¹ increase of seven per cent to £47m (2007: £44m), as we continued with our strategy to rebalance the mix of the business focusing on rebuilding authority in our core categories, optimising margins, maintaining tight cost control and delivering the retail basics. Travel delivered another strong performance with profit¹ increasing by 14 per cent to £41m (2007: £36m). This was achieved as a result of increased sales combined with improved underlying gross margin and tight cost control.

High Street delivered £8m of cost savings during the period, in line with our cost savings targets, with a further £10m of cost savings being identified to be made in 2010 and 2011, making £25m over the next three years. Cost savings were delivered from a number of areas of the business, for example, efficiency gains through closure of off site stock rooms and improvements in supply chain processes.

Central costs and internal rents

Central support costs were £15m (2007: £14m) and include the central element of our share-based remuneration plans. Internal rents on freehold property owned by the Group remained at the prior year level of £1m.

Net investment income

The results include net investment income of £2m (2007: net finance charge of £1m). This reflects the strong cash position in the first half of the financial year.

Underlying diluted earnings per share² of 35.3p, up 20 per cent on the prior year.

Exceptional items

There were no exceptional items in the current year. In the prior year we recognised a £10m non cash curtailment gain as a result of the closure of the WHSmith Pension Trust to defined benefit service accrual on 2 April 2007.

Taxation

The tax charge for the year, before tax on exceptional items, was £17m (2007: £13m). The effective tax rate on continuing activities excluding exceptional items was 23 per cent (2007: 20 per cent).

We expect the effective tax rate to remain below the UK standard rate over the medium term. The exact tax rate achieved will depend on the underlying profitability of the Group and continued progress in closing off outstanding tax assessments.

Ordinary dividends of 14.3p per share, an increase of 21 per cent on the prior year.

Earnings per share

The Group's underlying diluted earnings per share increased by 20 per cent to 35.3p (2007: 29.3p) reflecting profit growth combined with a lower basic weighted average number of shares, following the share buyback, more than offsetting the increase in the effective tax rate. The Group generated diluted earnings per share (including exceptional items) of 35.3p (2007: 33.1p) which in the prior year reflected the non cash exceptional gain of £10m.

Dividends

The Board is proposing a final dividend of 9.7p per ordinary share, an increase of 20 per cent on the prior year. This gives a total dividend for the year of 14.3p per ordinary share, up 21 per cent (excluding the special dividend of 33p per ordinary share). Subject to shareholder approval the dividend will be paid on 5 February 2009 to shareholders registered at the close of business on 9 January 2009. 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.

Fixed charges cover

Fixed charges, comprising property operating lease rentals and net finance charges, were covered 1.4 times (2007: 1.4 times) by fixed charges and profit before tax and exceptional items.

GROUP CASH FLOW

The Group has delivered a strong free cash flow of £63m.

£m	2008	2007
Operating profit ¹	74	67
Depreciation, amortisation and amounts written off fixed assets	42	41
Cash profit	116	108
Working capital	2	9
Capital expenditure	(39)	(32)
Tax	(21)	(8)
Net interest received	2	2
Net provisions	(3)	(2)
Other items	6	4
Free cash flow	63	81

¹ Stated before exceptional items.

We continue to focus on working capital management. The increased stock requirements from acquisitions and new store openings have been offset by efficient management of payables and receivables.

As expected, cash payments in respect of corporation tax increased and during the year the Group paid £21m of tax which is £13m higher than in the prior year.

Net interest income for the year was £2m which reflects the strong cash position in the first half of the financial year.

Other items relate to share-based payment charges of £6m (2007: £6m) and profits on disposal of fixed assets of Enil (2007: £2m).

Capital expenditure

£m	2008	2007
New stores and store development	19	12
Refurbished stores	9	7
Systems	8	9
Other	3	4
Total	39	32

The Group has incurred £39m capital expenditure in the year. This is ahead of our previous levels, reflecting the significant acquisitions we made during the year and our business gains. We opened 37 new units including Travel units at Edinburgh airport, Heathrow airport and St Pancras International, and High Street units in Woodbridge and St Peter Port. We also completed the Post Office opening programme announced last year. We continue to invest in maintaining our retail properties. During the period we have undertaken refurbishments at High Street units including Lewisham and Fort Kinnaird and Travel units including Gatwick South and North Terminals. In the current year we expect capital expenditure to be consistent with levels in earlier years, at circa £32m.

Net funds

The movement in the net funds position is as follows:

£m	2008	2007
Opening net funds	64	42
Free cash flow	63	81
Return of cash to shareholders ¹	(90)	-
Equity dividends paid ¹	(21)	(17)
Acquisition of businesses	(24)	-
Pension deficit funding	(10)	(35)
Tax refund and associated interest received	15	14
Net purchase of own shares	(9)	(12)
Sale and leaseback and fixed asset disposal proceeds	3	2
Corporate advisory costs	-	(6)
Other items	-	(5)
Closing net funds	(9)	64

¹ Return of cash to shareholders includes special dividend. Dividends paid includes interim and final dividends paid.

During the year, the Company completed a £90m return of cash to shareholders. This return was made by way of a special dividend of 33p per share paid on 29 February 2008 and an on market share buyback programme, amounting to £33m.

We have spent £24m on the acquisition of UNS Group Limited, the airport units from Alpha Retail UK Limited and the High Street units from Martin McColl.

Additional pension deficit funding of £10m has been made in the period as part of the Group's £10m per annum pension funding agreement which runs until 2011. In the prior year, we also made a one-off payment of £25m, as part of our demerger from Smiths News PLC.

During the period we received a tax refund including associated interest of £15m (2007: £14m).

Strong operating free cash flow of £63m in the year.

GROUP BALANCE SHEET

£m	2008	2007
Goodwill and other intangible fixed assets	55	35
Property plant and equipment	177	176
Available for sale investments	-	4
	232	215
Inventories	147	141
Payables less receivables	(171)	(161)
Working capital	(24)	(20)
Net deferred tax asset	1	3
Current tax liability	(31)	(25)
Provisions	(8)	(10)
Operating assets employed	170	163
Net (debt) / funds	(9)	64
Net assets excluding pension liabilities	161	227
Pension liability	-	-
Total net assets	161	227

The Group's net assets have decreased from £227m at the end of 2007 to £161m this year, principally as a result of the return of cash to shareholders.

Return on capital employed (ROCE)

Total capital employed and ROCE were as follows:

	Operating capital employed £m	ROCE %	ROCE % with operating leases capitalised
High Street	163	29%	14%
Travel	53	77%	25%
Trading operations	216	41%	17%
Central items and property	(46)		
Operating assets employed	170	44%	17%

For the prior year, comparable average returns were 41 per cent (15 per cent - after capitalised operating leases).

Pensions

The Group has made significant progress since 2003 in substantially reducing the Group's gross IAS 19 pension deficit to £nil at 31 August 2008. The LDI structure has been in place for three years and continues to perform well.

During the year, the Group has made a £10m contribution to the WHSmith Pension Trust, in line with the annual deficit funding schedule agreed with the WHSmith Pension Trust Trustees. This will continue for the next three years, until September 2011.

On 2 April 2007, the WHSmith Pension Trust was closed to defined benefit service accrual. The actuarial impact of these changes on the liabilities of the WHSmith Pension Trust was reflected in the non cash curtailment gain of £10m in the prior year.

A £90m return of cash to shareholders completed in the year.

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 £131m (2007: £nil) available on a reduction of future contributions is £nil (2007: £nil). As a result, the Group has not recognised this IAS 19 surplus on the balance sheet. On an ongoing funding basis the gross actuarial defined benefit pension deficit at 31 August 2008 for WH Smith PLC was approximately £60m (approximately £43m net of related deferred taxes) (2007: approximately £46m and approximately £33m net of related deferred taxes) for the Pension Trust. There is an ongoing deficit primarily due to the different assumptions and calculation methodologies used compared to those under IAS 19.

FINANCING AND CAPITAL STRUCTURE

The Group is financed through a mixture of equity and debt, comprising overdrafts and credit facilities and finance leases. During the period, the Group's remaining loan note liabilities were repaid.

The Company completed a £90m return of cash to shareholders during the year. The initial return of 33p per share was made on 29 February 2008 by way of a special dividend, combined with a share consolidation of 67 new ordinary shares for every 74 existing ordinary shares. The remainder was returned through an on market share buyback programme, amounting to £33m.

TREASURY AND RISK MANAGEMENT

The Group's Treasury function seeks to reduce exposures to interest rate, foreign exchange and other financial risks, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The Group does not engage in speculative trading in financial instruments and transacts only in relation to underlying business requirements. The Group's treasury policies and procedures are periodically reviewed and approved by the Audit Committee and are subject to regular Group Internal Audit review.

The Group's exposure to and management of capital, liquidity, credit, interest rate and foreign currency risk are summarised below. Further detail can be found in Note 30 of the accounts.

Capital risk

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

Liquidity risk

The Group manages its exposure to liquidity risk by reviewing the cash resources required to meet its business objectives through both short and long-term cash flow forecasts. The Group has committed and uncommitted facilities with a number of financial institutions which are available to be drawn for general corporate purposes including working capital.

The Group's Treasury function has a policy of pooling group cash flows in order to maximise the return on surplus cash and also to utilise cash within the group to reduce the costs of external short-term funding.

Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables. The Group has a very low retail credit risk due to the transactions being principally of a high volume, low value and short maturity. The Group has no significant concentration of credit risk, with the exposure spread over a large number of counterparties and customers.

ROCE increased to 17 per cent compared to 15 per cent in 2007.

The credit risk on liquid funds and derivative financial instruments is considered to be low, as the Board approved Group Treasury Policy limits the value that can be placed with each approved counterparty to minimise the risk of loss. These limits are based on a combination of short-term credit ratings of P-1/A-1 and long-term ratings of A1/A+ or better.

Interest rate risk

The Group is exposed to cash flow interest rate risk on floating rate bank loans and overdrafts. At 31 August 2008, the Group had £25m (2007: £nil) drawn down from its committed revolving credit facility. The Group does not see this draw down as long-term in nature and has therefore not entered into interest rate derivatives to mitigate this risk.

Foreign currency risk

The Group's foreign currency exposures are principally to the US Dollar and Euro. The Group uses forward foreign exchange contracts to hedge significant future transactions and cash flows denominated in currencies other than pounds sterling. The hedging instruments have been used to hedge purchases in US dollars and to minimise foreign exchange risk in movements of the USD/GBP exchange rates. These are designated as cash flow hedges. At 31 August 2008, the Group had no material unhedged currency exposures. The Euro exposure is principally operational and arises through the ownership of a retail store in France. The Group does not use derivatives to hedge balance sheet and profit and loss translation exposure.

Investment risk management

The Group's defined benefit pension scheme, the WHSmith Pension Trust, has significant assets valued at £793m as at 31 August 2008. An Investment Committee of the Trustees to the scheme meets regularly to review the performance of the asset managers and the scheme as a whole, together with the underlying investments. The Company is represented on this Committee. In adopting the LDI structure in 2005 a number of inflation and interest rate hedges and option agreements were entered into, with collateral posted daily to or from the scheme to the relevant counterparty. The risk of failure of counterparties to these instruments, and of the investment manager, is monitored regularly by the Committee; as such failure could expose the scheme to loss.

OPERATING LEASES

The Group's stores are held mainly under operating leases that are not capitalised and therefore are not included as a debt for accounting purposes. The High Street leases are on standard 'institutional' lease terms, typically with a 15 year term, subject to five year upwards-only rent reviews. The Travel stores operate mainly through turnover related leases, usually with minimum rent guarantees, and generally varying in length from five to ten years.

The business has an annual minimum net rental commitment of £151m (net of £8m of external rent receivable). The total future rental commitment at the balance sheet date amounted to £900m with the leases having an average life of six years. The net present value of these commitments is approximately £637m. 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.

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 £64m (2007: £76m).

Alan Stewart
Group Finance Director, WH Smith PLC
9 October 2008

At WHSmith, we believe that good corporate responsibility (CR) is essential to the long-term success of our business. We remain committed to managing our impact on society and our environment, integrating this work into our day-to-day management of the business.

This year, in recognition of our work, we were delighted to achieve Business in the Community's highest rank in their annual CR Index, the Platinum status.

We recognise four key areas of CR: Marketplace, Environment, Workplace and Community. Accountability for each rests with our Board and every year they review our strategy and agree the focus for the year ahead. The following section provides a summary of our CR activities this year. Our full CR Report provides details of our performance and establishes future corporate targets. It is available to view at: www.whsmithplc.co.uk/cr

MARKETPLACE

Above all else, our customers expect us to offer them choice, value for money and a good shopping experience. Customer satisfaction is a key driver of our business performance. To ensure we continue to meet our customers' expectations, we regularly assess the service we offer. Increasingly, customers also expect us to offer reassurance that our products have been made with a care for the environment and that factory workers are fairly treated.

Forest sourcing

It is our continuing objective that all virgin (i.e. non-recycled) material used in our products is from known, legal, well-managed and credibly certified forests.

During the year, we surveyed our own brand suppliers to trace timber and paper products back to their forest source. We achieved 90 per cent coverage of our supply base by volume and improved the accuracy of our data gathering methodology.

The volume of material from recycled sources and certified forests¹ was maintained at 41 per cent year on year. While this represents a significant proportion of our total volume, we realise there is more work to be done to improve this performance. The improved methodology has led to a review of our sourcing process and changes in selection criteria. In addition, we have targeted a number of key suppliers who we plan to work with over the coming year to generate improvements.

We provide our UK and Far East suppliers with guidance documents explaining the risks around forest sourcing and also our responsible sourcing policies. In addition, we are planning training workshops for our UK buyers so they may better understand the risks and requirements of our forest sourcing policy and can work with their key suppliers to ensure our products are from well-managed sources.

Ethical trading

We are committed to ensuring good standards among our suppliers and we engage with them to bring about improvement. We will only place orders with reputable suppliers and manufacturers who are committed to working towards compliance with the conditions set out in our Supplier Code of Conduct and Human Rights policy.

WHSmith is a member of the Ethical Trade Initiative (ETI). The ETI is an alliance of companies, Non-Government Organisations and trade unions which promotes and improves the implementation of corporate codes of practice covering supply chains. Our supplier code is based on the ETI's own base code and we work in concert with them to meet our joint objectives. For example, we participate in the ETI China Working Group which provides a forum for members to learn and share experiences.

We have an integrated ethical and technical audit team based in our Hong Kong office. Before an order is placed with a new supplier, a member of this team will audit each factory to determine product quality, manufacturing processes, health and safety, treatment of workers and environmental conditions. Where necessary, any improvements will be agreed with the factory managers and we will continue to visit them, on a regular basis, to ensure compliance and provide support. Every two years we undertake an independent benchmarking process to ensure our ethical audits remain in line with industry best practice.

We audit all our direct source suppliers in Asia every two years. This year, the team carried out 128 audits across China, India and the Far East. This figure is slightly lower than the previous year and reflects some seasonal fluctuations and also some improvement in compliance, leading to the need for fewer audits at suppliers where we have established, long-term relationships. Our focus for the year ahead is to extend our audit plan to products imported through UK agents.

We continue to work in partnership with three of our larger Asia suppliers to develop better working practices to improve their general health and safety standards. A detailed case study can be viewed in our full CR Report. We are planning training workshops for our UK buyers so they may better understand the risks and requirements of our Supplier Code of Conduct to enable them to work closely with our suppliers and audit teams to improve compliance.

¹ Certified forests are managed in accordance with the requirements of specific certification bodies setting out the steps that must be taken to ensure the long-term sustainability of the forest. The certification schemes our suppliers use include the Forest Stewardship Council (FSC) scheme, Programme for the Endorsement of Forest Certification (PEFC) scheme and Sustainable Forestry Initiative (SFI). The approach taken by each certification scheme varies. We encourage suppliers to move towards certification under the FSC scheme, which is recognised by WWF as an indicator of a well-managed forest.

Responsible retailing

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

Responsible retailing is also about offering choice to help our customers reduce their impact on the environment. We do this by making it easier to identify these products on the shelf. This year, we have continued to develop our range of stationery products and have increased our giving through our 'Adopt-an-Animal' range of charity Christmas gifts.

ENVIRONMENT

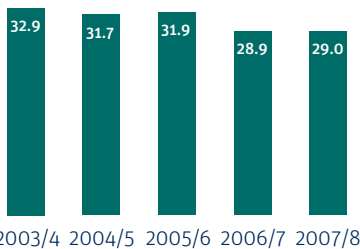
At WHSmith we remain committed to reducing our environmental impact as we recognise this is an important issue for our customers, employees and wider stakeholders. It is also good business management in that steadily reducing our impacts, for example energy and waste, results in a more efficient business and lower operating costs.

Energy and emissions

In 2007 we set a progressive energy target to reduce consumption by 15 per cent, per square foot, by August 2010. During the year, our overall energy consumption increased slightly, with the majority of the increase coming through the winter months.

ENERGY CONSUMPTION

KWh per square foot: 5 years to 2007/08



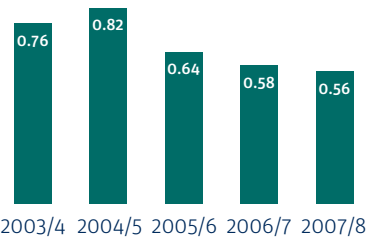
While this makes achieving our 2010 target more challenging, we are still committed to this reduction. The majority of our High Street stores have Automated Meter Reading (AMR) systems which enable us to monitor, both in store and at our central offices, the energy consumption of individual stores throughout the day. To realise fully the benefits this provides, we have implemented a new reporting system with our Store and Area Managers. This will ensure we understand unplanned energy spikes as they occur and can facilitate prompt action to reduce energy wastage. In addition, we have an active programme of energy efficiency initiatives to enable the achievement of our 2010 target.

Transport

We have continued to improve fuel efficiency this year, resulting in lower carbon dioxide emissions per package moved. This reduction has been achieved in part by the continuing benefit of improvements made last year, for example, the introduction of double decker trailers leading to fewer delivery vehicles on the road, and also, in part, due to new initiatives introduced this year. These new initiatives include a renewed focus on store delivery scheduling and maximising the stock fill of our delivery totes at our distribution centres.

CARBON DIOXIDE EMISSIONS PER PACKAGE MOVED*

Carbon Dioxide emissions (kg): 5 years to 2007/08



* Data for 2005/06, 2006/07, 2007/08 re-stated based on more accurate totes data.

We anticipate further improvements in the coming year as we plan to upgrade our fleet to more fuel efficient vehicles and also from working collaboratively with other retailers to share store deliveries, especially to remote areas of the UK.

As an example of how good environmental management can drive down costs, we have begun working with our suppliers to reduce their transport emissions. Earlier this year we launched a 'Collection Service' which takes stock from our suppliers, using our store delivery fleet, which would otherwise come back empty to our distribution centres. This initiative brings a potential triple benefit of cost reduction for both parties, a reduction in vehicles on our roads and better stock control management.

Reducing waste

The majority of the waste generated by our business is cardboard, plastic shrink wrap and damaged stock. This year, we enabled all our High Street stores that can incorporate the facilities to recycle their cardboard on site. However, we recognise that there is more to do and waste is a continued area of focus for us.

We are committed to reducing the environmental impact of our plastic carrier bags and this year we reduced consumption by 12 per cent. In partnership with the Woodland Trust, we encouraged customers not to take a bag and rewarded this behaviour by making a donation to support the Trust's work. As a result, we achieved our aim of funding the planting of 10,000 trees across the UK. In addition, we are taking further steps to encourage behaviour change: we have launched a re-usable carrier bag made from 100 per cent recycled content and are investigating the effects of carrier bag charging through store trials. These trials have led to a significant reduction in usage and we plan to extend the number of stores trialling the initiative during our Christmas trading period.

Continuing our theme of helping customers reduce their impact on the environment, we have for a number of years partnered with the Woodland Trust to provide customers with a service to recycle their Christmas cards. We are one of four UK retailers that offer the scheme and together in 2008 we recycled 74 million cards, resulting in the planting of a further 17,000 trees.



**WOODLAND
TRUST**

Registered charity number: 294344

WORKPLACE

The quality of any business depends strongly on its people. To develop a good team it is essential to recruit the right people, keep them motivated and create the right environment for them to perform well. At WHSmith we provide all our employees with training opportunities to help them develop their careers and we focus on engaging employees across our business.

Developing our people

We are keen to develop our future managers from within WHSmith and so we work to ensure there is a pipeline of talent available for all managerial roles. This year our succession planning programmes for our stores were attended by 135 Store Supervisors and 103 Store Managers. In addition, we completed development

programmes for our senior Store Managers and Head Office senior managers with the potential to succeed to bigger roles. We also carried out a full review of our store training programmes and subsequently launched new learning guides in our High Street and Travel stores, and redesigned our training intranet site.

Employee engagement

Employee engagement is a continuing focus for us and we have plans to develop our engagement levels further over the year. Last year we appointed Employee Engagement Champions at our Head Office to discuss how we improve our working environment. As we expand our High Street and Travel business to include Post Offices and Hospitals we take the time to engage those new employees with our values, culture and ways of working. We ensure everyone receives an introduction to WHSmith and this year we plan to review and revise our training programmes to cater specifically for the needs of these employees.

Health and safety

Our Board is committed to maintaining high standards of health and safety. The Management team, supported by professional safety advisers, monitors key safety performance indicators and an annual report detailing trends, performance and recommendations is presented to the Board. The business also has a properly constituted Health and Safety Committee that comprises employee representatives, management, trade union representatives and professional safety advisers.

This year, we continued our downward trend in the number of reported incidents, with the total number of reportable accidents falling by three per cent. Maintaining this trend is an ongoing area of focus over the coming year.

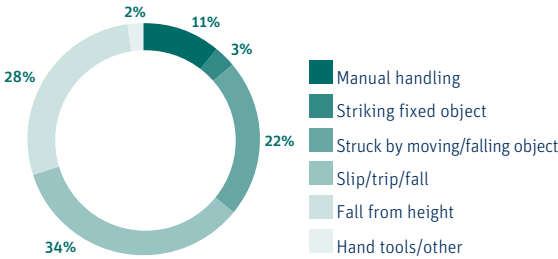
Accidents and injuries

	2008	2007	2006	2005
Major injuries	16	16	22	22
Injuries resulting in over 3 days absence from work/hospitalisation	51	53	48	57
ALL RIDDORS*	67	69	70	79

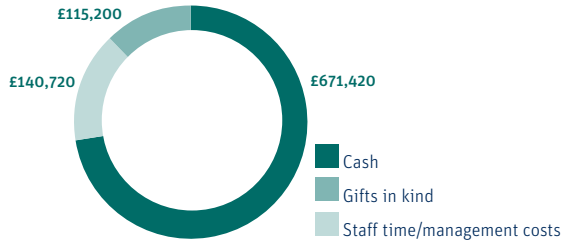
* Reportable under the Reporting of Injuries, Diseases and Dangerous Occurrence Regulations.

Over 60 per cent of accidents were due to slips and trips and falls from height. During the year we trained 1,000 Store Managers in these specific issues, to enable them to cascade safety training to their staff. In addition, specific Health and Safety training is incorporated into our Management Development Programme for new Store Managers.

ACCIDENTS BY TYPE 1 SEPT 2007 – 31 AUG 2008



WHSMITH COMMUNITY INVESTMENT 2007/08



Promoting well-being

Our work on employee health and safety extends beyond the management of accidents, as we seek to help employees improve their health. During the early months of 2008, we re-ran our WHSmith Healthy Living Campaign for staff in our distribution centres and Head Office, designed to help promote a healthy lifestyle. This campaign featured a personal health screening, fitness classes and the promotion of healthy eating.

Improving access to our stores

It is our aim to improve the service we provide to our disabled customers, in compliance with DDA legislation. Our rolling programme of capital improvements has this year included a number of installations of customer lifts, automatic doors and hearing loops. We have also invested in new evacuation chairs for disabled customers as part of our fire protection programme. We have continued to train our store staff, issuing new training guides to all stores which were designed and printed by the Employers Forum on Disability, of which we are a member. We continue to subscribe to the website service operated by Direct Enquiries that provides information to disabled customers on the specific facilities at each of our stores and enables us to review feedback on the quality of service.

COMMUNITY

We value our community programme as an important tool through which we can support the local communities in which we operate. Our employees have the opportunity to support good causes and give time to participate in fund raising activities. As a leading bookseller and stationer we focus our investment on education and life-long learning through our work with the WHSmith Group Charitable Trust.

We set and achieve annual targets to invest at least one per cent of our pre-tax profits in support of charities and community projects.

The WHSmith Group Charitable Trust

The WHSmith Group Charitable Trust is an independent registered charity that actively supports employees who are involved with charitable organisations in their local community. For the fourth year, WH Smith PLC collaborated with the Trust and the National Literacy Trust to fund the 'WHSmith Summer Read' which is designed to encourage children to keep reading during their summer holidays. This year we reached 3,600 children across 18 UK locations. More information on this initiative is available to view in our full CR report.

During the year we launched a new voluntary payroll giving scheme to raise awareness of the Trust amongst employees and enable them to contribute to its work. Called 'Pennies from Heaven', the scheme works by 'rounding up' the pennies on employees' salary to form a monthly donation.

Recognising employee contribution around the UK

The WHSmith Community Awards scheme is our way of recognising the contribution employees make to their local charities. This year, following a nomination process, 20 teams received awards of £500 each to support their charitable efforts further.

Our employees also participate in store focused events to promote worthy causes. World Book Day aims to give every child the opportunity to choose a book of their own and to promote the enjoyment of reading. This year 245 of our stores hosted a children's event aimed at promoting the fun of reading.

Products in support of charitable giving

We continue to support charities and good causes through the promotion and sale of tailored products in our stores. Our Christmas gift ranges make significant contributions to the funds generated and this year was no exception with £167,000 raised from the sales of charity cards and calendars. Also, our extended 'Adopt-an-Animal' range generated further income for good causes.

More information on our corporate responsibility is available at: www.whsmithplc.co.uk/cr



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BOARD COMMITTEES

Audit Committee

Mike Ellis – Chairman
John Barton
Drummond Hall
Luke Mayhew

Remuneration Committee

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

Nominations Committee

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

1. Robert Walker joined the Board of WH Smith as a non-executive director in January 2005 and became Chairman on 1 February 2005. He is Chairman of BCA Holdings Ltd and is also a non-executive director of Signet Group plc, Tate and Lyle plc and Williams Lea Holdings plc, where he was Chairman until 2006. He started his career at Procter & Gamble and McKinsey & Co., then spent over 20 years with PepsiCo Inc. In May 1996, he joined the Board of Severn Trent plc as a non-executive director and then served as Group Chief Executive from August 2000 until retirement in February 2005. Aged 63.

2. Kate Swann is Group Chief Executive and joined the Board of WH Smith in November 2003. She started her career at Tesco plc before moving to positions at Homepride Foods, Coca Cola Schweppes and Dixons Stores Group. She then worked for Homebase, ultimately as Managing Director, before becoming Managing Director of Argos in December 2000. She is a non-executive director of The British Land Company PLC. Aged 43.

3. Alan Stewart is Group Finance Director and joined the Board of WH Smith in March 2005. He joined Thomas Cook UK Limited in 1998 as Group Treasurer and was appointed Chief Financial Officer in the same year. In 2001 he was appointed Chief Executive of Thomas Cook UK Limited and became a member of the Thomas Cook AG Board. He is a non-executive director of Games Workshop Group PLC and a trustee of the children's charity KidsOut. Aged 48.

4. John Barton is a non-executive director and Senior Independent Director and joined the Board of WH Smith in November 1999. He retired as Chairman of Jardine Lloyd Thompson Group plc in December 2001, having formerly been the Chief Executive of Jardine Insurance Brokers Group plc. He is Chairman of Next plc and is also Chairman of Brit Insurance Holdings PLC. Aged 64.

5. Mike Ellis is a non-executive director and joined the Board of WH Smith in March 2005. He rejoined the Board of HBOS plc in September 2007 and became Group Finance Director in January 2008, a position that he held previously from 2001 to 2004. Prior to this, for 14 years, he worked in a number of senior executive positions at Halifax plc (and its predecessor, Halifax Building Society) and was appointed Chief Operating Officer in 1999. Aged 57.

6. Drummond Hall is a non-executive director and joined the Board of WH Smith in September 2008. He spent his early years with Procter & Gamble, Mars and PepsiCo Inc, and from 2002 to 2006 was Chief Executive of Dairy Crest PLC. He is Chairman of Mitchells and Butlers PLC and is also a non-executive director of Taylor Nelson Sofres PLC and Burton's Holdings Limited. Aged 59.

7. Luke Mayhew is a non-executive director and joined the Board of WH Smith in July 2005. He was Managing Director of John Lewis from 2000 to 2004, prior to which, from 1992 to 2000, he was Director of Research and Expansion of the John Lewis Partnership. He is Chairman of Pets at Home Group Limited and a non-executive director of Brambles Limited. Aged 55.

Ian Houghton is Company Secretary and Legal Director. Aged 42.

The directors of WH Smith PLC (the 'Company') present their Annual Report to shareholders together with the audited consolidated accounts of the Company and its subsidiaries for the year ended 31 August 2008. The purpose of the Annual Report is to provide information to members of the Company. The Annual Report contains certain forward looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results to differ from those anticipated. Nothing in this Annual Report should be construed as a profit forecast.

BUSINESS REVIEW

The Companies Act 1985 requires the Company to set out in this report a fair review of the business of the Group during the financial year ended 31 August 2008, including an analysis of the position of the Group at the end of the financial year, and a description of the principal risks and uncertainties facing the Group.

The information that fulfils the Business Review requirements can be found in the following sections of the Annual Report which are incorporated into this report by reference:

- Chairman's Statement on pages 2 and 3
- Chief Executive's business review on pages 4 to 13
- Financial review on pages 14 to 19
- Environmental, Social and Community matters on pages 20 to 23

Pages 25 to 29 inclusive (together with the sections of the Annual Report incorporated by reference) consist of a directors' report that has been drawn up and presented in accordance with and reliance upon applicable English law and the liabilities of the directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

PRINCIPAL ACTIVITY

The principal activity of the Company is retailing and associated activities in the UK. The Company is one of the UK's leading retailers of Books, Stationery, Newspapers, Magazines and Entertainment products.

COMPANY RESULTS

The profit for the financial year, before taxation and exceptional items, was £76m (2007: £66m) and sales increased by £53m to £1,352m, representing an increase of four per cent.

DIVIDENDS

The directors recommend the payment of a final dividend for the year of 9.7p per ordinary share on 5 February 2009 to members on the Register at the close of business on 9 January 2009.

This final dividend, together with the special dividend of 33p per ordinary share paid on 29 February 2008 and the interim dividend of 4.6p per ordinary share paid on 13 June 2008, makes a total dividend of 47.3p per ordinary share for the year ended 31 August 2008.

SHARE CAPITAL

The authorised and issued share capital of the Company, together with details of shares issued during the year, are shown in Note 31 to the Accounts.

At the Extraordinary General Meeting of the Company held on 20 February 2008 (the 'EGM'), shareholders approved the special dividend of 33p per ordinary share and a 67 for 74 share consolidation of the ordinary shares of the Company. As a result of the share consolidation the nominal value of the Company's ordinary shares increased from 20p per ordinary share to 22⁶/₆₇p per ordinary share. The Company's new ordinary shares of 22⁶/₆₇p were admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange on 22 February 2008. Following the share consolidation, the Company's authorised share capital comprises of 271,621,621 ordinary shares of 22⁶/₆₇p each and one redeemable preference share of £50,000. The issued share capital of the Company as at 31 August 2008 was 156,851,234. The ordinary shares are listed on the London Stock Exchange and can be held in certificated or uncertificated form.

The rights and obligations attaching to the Company's ordinary and deferred shares, in addition to those conferred on their holders by law, are set out in the Company's Articles of Association, a copy of which can be obtained by writing to the Company Secretary or from Companies House. The holders of ordinary shares are entitled to receive the Company's report and accounts, to attend and speak at general meetings of the Company, to appoint proxies and to exercise voting rights (subject to the restrictions set out below), to receive a dividend subject to the deduction of any sums due from the holder of ordinary shares to the Company on account of calls or otherwise. Changes to the Company's Articles of Association must be approved by special resolution of the Company.

The Board may, in its absolute discretion and without giving any reason for it, refuse to register any transfer of any certificated share which is not fully paid up (but not so as to prevent dealings in listed shares from taking place) and on which the Company has a lien as a result of such share not being fully paid up. The Board may also refuse to register any instrument of transfer of a certificated share unless it is lodged at the registered office, or other such place as the Board, may decide, for registration, accompanied by a certificate for the shares to be transferred and such other evidence as the Board may reasonably require to prove title of the intending transferor.

Subject to disenfranchisement in the event of (A) non-payment of any call or other sum due and payable in respect of any share or (B) non-compliance with any statutory notice requiring the disclosure of certain information in relation to the ownership of shares, and subject to any special rights or restrictions as to voting from time to time attached to any shares, at general meetings of the Company on a show of hands every member has one vote, and on a poll, every member has one vote for each share of which he is a holder.

The Trustee of the WH Smith Employee Benefit Trust holds ordinary shares in the Company on behalf of the beneficiaries of the Trust, who are the employees and former employees of the Group. If any offer is made to the holders of ordinary shares to acquire their shares, the Trustee will not be obliged to accept or reject the offer in respect of any shares which are at that time subject to subsisting options, but will have regard to the interests of the optionholders and can consult them to obtain their views on the offer, and subject to the foregoing, the Trustee will take the action with respect to the offer it thinks fair.

PURCHASE OF OWN SHARES

At the EGM, authority was also given for the Company to purchase, in the market, up to 23,189,101 ordinary shares of 22^{1/2}p each. The Company used this authority to purchase and subsequently cancel 8,852,203 of its own shares during the financial year representing 5.64 per cent of the called-up share capital, at an average price of 376p. The aggregate amount of consideration paid by the Company for the purchases was £33m. This authority is renewable annually and approval will be sought from shareholders at the Annual General Meeting in 2009 to renew the authority for a further year.

ISSUE OF NEW ORDINARY SHARES

During the financial year ending 31 August 2008, 2,404 ordinary shares of the Company were issued under the Sharesave Scheme at a price of 295.20p. The Articles of Association of the Company provide that the Board may, subject to the prior approval of the members of the Company be granted authority to exercise all the powers of the Company to allot relevant securities, including new ordinary shares.

TRANSACTIONS

On 18 March 2008, the Company purchased UNS Group Limited comprising 72 retail units and eight Caffe Nuovo coffee shops in 62 hospitals for £19m in cash. The Company also purchased on 16 April 2008 the World News Business from Alpha Retail UK Limited comprising 23 retail units in 11 airports.

Further details of these acquisitions can be found in Note 18 to the Accounts.

SIGNIFICANT AGREEMENTS – CHANGE OF CONTROL

A change of control of the Company following a takeover bid may cause a number of agreements to which the Company or its trading subsidiaries, WH Smith High Street Limited and WH Smith Travel Limited, is party, such as commercial trading contracts, banking arrangements, property lease and licence agreements to take effect, alter or terminate. In addition, the directors' service agreements and employee share plans would be similarly affected on a change of control, including in the case of the directors, compensation for loss of office. In the context of the Company as a whole, these agreements are not considered to be significant.

Details of the change of control clause contained in the service contracts of the executive directors can be found in the Remuneration Report on page 37.

NEW ARTICLES OF ASSOCIATION

The Company adopted revised new Articles of Association which were approved by shareholders at the Company's AGM with effect from October 2008. The new Articles of Association permit the Board to consider and, if it sees fit, to authorise situations where a director has an interest that conflicts, or may possibly conflict, with the interests of the Company ('situational conflicts'). The Board has a formal system in place for directors to declare situational conflicts and for these to be considered for authorisation by those directors who have no interest in the matter being considered. In deciding whether to authorise a situational conflict, these non-conflicted directors are required to act in the way they would consider would be most likely to promote the success of the Company, and they may impose limits or conditions when giving authorisation or subsequently if they think this is appropriate.

COMPANY'S SHAREHOLDERS

The Company has been notified that as at the date of this report, the following shareholders own more than three per cent of the issued share capital of the Company:

Holder	Number	% of Holding	Nature
Standard Life Investments Limited	14,132,643	9.01	Direct/ Indirect
JPMorgan Chase & Co.	8,126,504	5.18	Indirect
Sanderson Asset Management Limited	7,769,409	4.95	Direct
Artemis Investment Management Limited	7,774,084	4.76	Direct
Legal & General Group PLC	7,280,060	4.00	Direct
Barclays Global Investors	4,809,497	3.05	Indirect

Except for the above, the Company is not aware of any ordinary shareholders with interests of three per cent or more in the issued share capital of the Company.

BOARD OF DIRECTORS

The names of the directors as at the date of this report, together with biographical details, are set out on page 24. All the directors served throughout the period except as set out below:

MT Rainey, who served as a director from March 2002, retired on 31 January 2008 after having served two three-year terms on the Board.

Drummond Hall, was appointed as a director on 1 September 2008.

The Company's Articles of Association give a power to the Board to appoint directors and, where notice is given signed by all the other directors, remove a director from office. The Company's Articles of Association themselves may be amended by special resolution of the shareholders.

The Company's Articles of Association require that directors offer themselves for re-election every three years and that new directors appointed by the Board offer themselves for election at the next Annual General Meeting following their appointment.

Robert Walker and Luke Mayhew retire from the Board and, being eligible, offer themselves for re-election. The Chairman conducted a thorough review with Luke Mayhew to assess his contribution to the Board and confirmed that he continues to be an effective non-executive director. John Barton conducted a thorough review with Robert Walker to assess his contribution to the Board and confirmed that he continues to be an effective Chairman.

Drummond Hall was appointed to the Board as a non-executive director in September 2008 and pursuant to the Company's Articles of Association retires and, being eligible, offers himself for election at the Annual General Meeting. Drummond Hall has been appointed for a fixed term and does not have a contract of service. The Board believes that Drummond Hall should be elected because he has extensive consumer marketing and corporate strategy experience.

In accordance with good corporate governance, John Barton who was appointed to the Board as a non-executive director in November 1999 and has served on the Board for nine years will retire and, being eligible, offers himself for election at the Annual General Meeting. John Barton has been appointed for a fixed term until the Company's Annual General Meeting in 2010 and does not have a contract of service. The Chairman conducted a thorough review with John Barton to assess his independence and contribution to the Board and confirmed that he continues to be an effective independent non-executive director and continues to add value. The Board believes that John Barton is an effective independent non-executive director notwithstanding the fact that he will have served on the Board for nine years since the

date he was first appointed to the Board at the Annual General Meeting on 26 January 2009. John Barton has extensive financial and retail experience which the Board continues to benefit from in managing the Company.

Alan Stewart has decided to leave the Company and will be replaced by Robert Moorhead, the Retail Finance Director. Alan Stewart will resign from the Board on 28 November 2008 and be replaced by Robert Moorhead with effect from 1 December 2008. Robert Moorhead will pursuant to the Company's Articles of Association retire and, being eligible, offer himself for election at the Annual General Meeting.

The interests of the directors and their immediate families in the share capital of the Company, along with details of directors' share options and awards, are contained in the Remuneration Report on pages 34 to 41.

At no time during the year did any of the directors have a material interest in any significant contract with the Company or any of its subsidiaries.

The Company maintains directors' and officers' liability insurance which gives appropriate cover for any legal action brought against its directors. The Company has also provided an indemnity for its directors, which is a qualifying third party indemnity provision for the purposes of section 234 of the Companies Act 2006.

DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. The directors are required by the IAS Regulation to prepare the Group financial statements under International Financial Reporting Standards ('IFRSs') as adopted by the European Union. The Group financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

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

- (a) properly select and apply accounting policies;
- (b) present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- (c) provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The parent company financial statements are required by law to give a true and fair view of the state of affairs of the Company. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the parent company financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities, as described more fully in the Corporate Governance Report on pages 30 to 33.

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

DIRECTORS' RESPONSIBILITY STATEMENT PURSUANT TO DTR4

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

- (a) the Group and Company financial statements in this report, which have been prepared in accordance with IFRSs as adopted by the EU, IFRIC interpretations and those parts of the Companies Act 1985 applicable to companies reporting under IFRSs, give a true and fair view of the assets, liabilities, financial position and profit of the Group taken as a whole; and

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

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

Having made the requisite enquiries, as far as each of the directors is aware, there is no relevant audit information (as defined by section 234ZA of the Companies Act 1985) of which the Company's auditors are unaware, and each of the directors has taken all steps he should have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

EMPLOYEES

The Group employs approximately 18,000 people throughout the United Kingdom and it is proud of its long history of being regarded as a responsible and respected employer. Employees are kept well informed of the performance and objectives of the Group through personal briefings and email and the Company's open management style encourages employees to contribute to the development of the business.

The Company operates a HM Revenue & Customs Approved Save-As-You-Earn share option scheme ('Sharesave Scheme') which provides employees with the opportunity to acquire shares in the Company.

The Board believes in creating throughout the Company a culture that is free from discrimination and harassment and will not permit or tolerate discrimination in any form. The Company gives full and fair consideration to applications for employment when these are received from disabled people and employs disabled people whenever suitable vacancies arise. Should an employee become disabled when working for the Company, efforts are made to continue their employment and retraining is provided, if necessary.

CHARITABLE AND POLITICAL DONATIONS

The Company's support for charitable causes is mainly channelled through the work of the Company's Charitable Trust. Charitable donations during the year ended 31 August 2008 totalled £58,528 (2007: £76,528). In addition, the Company facilitated the sale of charitable products which gave rise to further donations of £340,751 (2007: £274,807) and also made donations in kind with an estimated value of £115,200 (2007: £126,455). Employees are encouraged to give their time and skills for the benefit of a variety of charitable causes.

It is the Company's policy not to make political donations and no political donations or EU political expenditure were made in the year (2007: £nil).

PAYMENT POLICY FOR SUPPLIERS

The Company's policy for the payment of suppliers, which complies with the CBI Code of Practice for Buyers, is to agree the terms of payment in advance in line with normal trade practice and, provided a supplier performs in accordance with the agreement, to abide by such terms. Copies of the CBI code may be obtained from the CBI, Centre Point, 103 New Oxford Street, London WC1A 1DU.

The Company's trade creditors figure as at the balance sheet date was equivalent to 45 days (2007: 45 days) based on average daily amounts invoiced by suppliers during the year.

GOING CONCERN

The directors consider that the Company has adequate resources to continue in operation for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the accounts.

AUDITORS

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors of the Company. A resolution to re-appoint Deloitte & Touche LLP as auditors to the Company and a resolution to authorise the directors to determine their remuneration will be proposed at the Annual General Meeting.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held at JPMorgan Cazenove, 20 Moorgate, London EC2R 6DA on 26 January 2009 at 11.30am.

The Notice of Annual General Meeting is given, together with explanatory notes, in the booklet which accompanies this report.

This report was approved by the Board on 9 October 2008.

By Order of the Board

Ian Houghton

Company Secretary

9 October 2008

The Board of the Company is committed to achieving the highest standards of corporate governance. The principal governance rules applying to UK companies listed on the London Stock Exchange with accounting periods beginning before 29 June 2008 are contained in the Combined Code on Corporate Governance adopted by the Financial Reporting Council in June 2006 (the 'Code'). The Board confirms that the Company has, except as described at the end of this report, applied the principles and complied with the provisions of the Code throughout the financial year ended 31 August 2008.

THE BOARD

On 9 October 2008, the Board comprised the Chairman, two executive directors and four independent non-executive directors. Short biographies of each of the directors, which illustrate their range of experience, are set out on page 24. There is a clear division of responsibility at the head of the Company; Robert Walker (Chairman) being responsible for running the Board and Kate Swann (Group Chief Executive) being responsible for implementing group strategy. John Barton has been nominated by the Board as the Senior Independent Director. The Board structure ensures that no individual or group dominates the decision-making process.

All of the non-executive directors who served during the year and up to the date of this report meet the independence criteria set out in the Code. John Barton has served on the Board for nine years. The Chairman conducted a thorough review with John Barton to assess his independence and contribution to the Board and confirmed that he continues to be an effective independent non-executive director.

The Board met nine times during the year. The Board manages the Company through a formal schedule of matters reserved for its decision. These include overall management of the Company; approval of strategic plans including acquisitions and disposals; approval of the Company's commercial strategy and operating and capital expenditure budgets; approval of the financial statements, material agreements and non-recurring projects; treasury policy; control, audit and risk management; remuneration; and, corporate responsibility. It also delegates specific responsibilities to the Board Committees detailed below, the role and responsibilities of each Committee being set out in formal terms of reference which are available on the Company's website and from the Company Secretary on request.

All directors have access to the advice and services of the Company Secretary and may take independent professional advice at the Company's expense in the furtherance of their duties. The Board receives appropriate and timely information, Board and Committee papers normally being sent out several days before meetings take place.

All newly appointed directors receive induction training on joining the Board which is tailored to meet the needs of the individual and the need for director training is regularly assessed by the Board.

The Board carried out a formal evaluation of its performance in September 2008. Each director completed an extensive questionnaire covering Board and Committee procedures and effectiveness and their own contribution to discussions and decision making. The non-executive directors met separately to review the Chairman's performance and provided feedback to him and the Chairman reviewed the contribution of each of the directors in separate individual sessions. The results of the evaluation were reported to the Board in October 2008. The Board found this to be an open, constructive and useful exercise and the review concluded that the Board is effective.

The Company's Articles of Association require that directors offer themselves for re-election every three years and that new directors appointed by the Board offer themselves for election at the next Annual General Meeting following their appointment.

BOARD COMMITTEES

Audit Committee

The Audit Committee is chaired by Mike Ellis, who has recent and relevant financial experience, and its other members are John Barton, Drummond Hall and Luke Mayhew, all of whom are independent non-executive directors. At the invitation of the Committee, the Chairman of the Board, the Finance Director, the Internal Audit Director and representatives of the external auditors regularly attend meetings. The Committee has regular private meetings with the external auditors during the year. The Committee's principal responsibilities cover internal control and risk management, internal audit, external audit (including auditor independence) and financial reporting.

The Committee met four times during the year and its activities included: a review of the preliminary and interim announcements, Annual Report and Financial Statements, the consideration of reports from the external auditors identifying any accounting or judgemental issues requiring its attention; approval of audit plans for the external and internal auditors; considering reports from the Internal Audit Director on the results of internal audit reviews, significant findings, management action plans and timeliness of resolution; reviewing reports on the Company's risk management process; reviewing management of fraud risk and incidences of fraud; reviewing the Company's Business Continuity Plans; and reviewing the effectiveness of the Company's whistleblowing process.

The Committee's terms of reference are available on the Company's website and from the Company Secretary on request.

Nominations Committee

The Nominations Committee is chaired by Robert Walker and its other members are John Barton, Mike Ellis, Drummond Hall, Luke Mayhew and Kate Swann. The Committee's principal responsibility is to ensure that appropriate procedures are in place for the nomination, selection and succession of directors and senior executives. MT Rainey served as a member of the Committee until her retirement as a director on 31 January 2008.

The Committee met four times during the year and its activities included: a review of the Company's succession plans; discussion in respect of the ongoing shape and capability of the Board; and the appointment of Drummond Hall as a director of the Company.

The appointment of Drummond Hall on 1 September 2008 was made following a search conducted by external consultants and recommendations made by the Committee. The Board, prior to appointing Drummond Hall, reviewed his other commitments and these are disclosed on page 24.

The Committee's terms of reference are available on the Company's website and from the Company Secretary on request.

Remuneration Committee

The Remuneration Committee is chaired by John Barton and its other members are Mike Ellis, Drummond Hall, Luke Mayhew, and Robert Walker. MT Rainey served as a member of the Committee until her retirement as a director on 31 January 2008. At the invitation of the Committee, the Group Chief Executive and representatives of Mercer Limited, its external independent adviser, regularly attend meetings. The Committee met five times during the year. The Committee's principal responsibility is to determine and recommend to the Board the remuneration of executive directors and the Chairman. The Committee monitors the levels and structure of remuneration for senior management and seeks to ensure that they are designed to attract, retain and motivate the executive directors to run the Company successfully. The remuneration of the non-executive directors is determined by the Chairman and the executive directors.

The Remuneration Report is set out on pages 34 to 41 as required by the Directors' Remuneration Report Regulations 2002. The Committee's terms of reference are available on the Company's website and from the Company Secretary on request.

Attendance at Board/Committee meetings

The following table shows the number of Board and Committee meetings held during the year ended 31 August 2008 and the attendance record of individual directors.

	Board meetings	Committee meetings		
		Audit	Nominations	Remuneration
No. of meetings	9	4	4	5
Robert Walker	9	4	4	5
Kate Swann	9	–	4	5
Alan Stewart	9	4	–	–
John Barton	9	4	4	5
Mike Ellis	9	4	2	1
Luke Mayhew	8	4	–	5
MT Rainey	6	–	2	3
(resigned 31.01.08)				

Mike Ellis was appointed as a member of the Remuneration and Nominations Committees on 31 January 2008.

Drummond Hall was appointed as a director of the Company on 1 September 2008.

Luke Mayhew was appointed as a member of the Nominations Committee on 4 September 2008.

The Board has met twice since 31 August 2008 and all the directors attended both meetings. In addition, the Remuneration Committee has met twice and the Audit Committee and the Nominations Committee have met once since 31 August 2008. These meetings were attended by all committee members.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board has overall responsibility for the Company's system of internal control and for reviewing its effectiveness, whilst the role of management is to implement the Board's policies on risk and control and provide assurance on compliance with these policies. Steps continue to be taken to embed internal control and risk management further into the operations of the business and to deal with areas of improvement which come to the attention of management and the Board. Such a system is, however, designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

i) Risk

The Board confirms that there is an ongoing process for identifying, evaluating and managing significant risks faced by the Company including those risks relating to social, environmental and ethical matters. This process was in place throughout the year under review and up to the date of approval of the Annual Report and meets the requirements of the guidance entitled 'Internal Control – Revised Guidance for Directors on the Combined Code' produced by the Financial Reporting Council (the 'Guidance'). The Audit Committee has kept under review the effectiveness of the system of internal control and has reported regularly to the Board.

The key features of the risk management process are as follows:

- The business conducts an annual risk assessment based on identified business objectives which are reviewed and agreed by the Retail Executive Committee. Risks are categorised into strategic, operational, financial and compliance and are evaluated in respect of their potential impact and likelihood. These risk assessments are updated and reviewed quarterly by the Group and business risk committees and are reported to the Retail Executive Committee and the Audit Committee.
- A Company risk assessment is also undertaken by the internal audit function, which considers all areas of potential risk across all systems, functions and key business processes. This risk assessment together with the business risk assessment forms the basis for determining the internal audit plan. Audit reports in relation to areas reviewed are discussed and agreed with the business risk committees and Audit Committee.
- The internal audit team meets annually with senior executives in order to complete a formal certification of the effectiveness of internal controls. These reports are submitted to the business risk committees. Certificates are also provided by the risk committees to the Audit Committee, to assist the Board in conducting its annual review of internal controls in compliance with the Guidance.

ii) Internal controls

a) Financial controls

The Company has an established framework of internal financial control, the effectiveness of which is regularly reviewed by the executive management and the Board. The key elements of this are as follows:

- the Board is responsible for overall Company strategy, for approving revenue and capital budgets and plans, for approving major acquisitions and disposals and for determining the financial structure of the Company including treasury and dividend policy. Monthly results, variances from plan and forecasts are reported to the Board;
- the Audit Committee assists the Board in the discharge of its duties regarding the Company's financial statements, accounting policies and the maintenance of proper internal business, operational and financial controls. The Committee provides a direct link between the Board and the external auditors through regular meetings;
- the internal audit function advises and assists business management to establish and maintain adequate financial controls and reports to the Audit Committee on the effectiveness of those controls;

- the Board has established an organisational structure with clearly defined lines of responsibility and approval controls identifying transactions requiring approval by the Board or by the Approvals Committee. The Finance Director is responsible for the functional leadership and development of the Company's finance activities;
- there is a comprehensive system for budgeting and planning and for monitoring and reporting the performance of the Company's business to the directors. Monthly results are reported against budget and prior year, and forecasts for the current financial year are regularly revised in the light of actual performance. These cover profits, cash flows, capital expenditure and balance sheets;
- the Company has established a uniform system of investment appraisal;
- executive management has defined the financial controls and procedures with which each business is required to comply. Key controls over major business risks include reviews against performance indicators and exception reporting and the business is required to prepare monthly management accounts; and
- routine reports are prepared to cover treasury activities and risks, for review by senior executives, and annual reports are prepared for the Board and Audit Committee covering treasury policies, insurance and pensions.

b) Non-financial controls

The Company has established a wide range of non-financial controls covering areas such as health and safety, environment, ethical trading, employment and business continuity, the effectiveness of which is regularly reviewed by the executive management and the Board. The key elements are as follows:

- a corporate responsibility strategy was approved by the Board, including objectives and targets to address the impacts that our activities have on the environment, workplace, marketplace and community;
- clear accountability for corporate responsibility issues has been defined at Board and operational level;
- annual updates are submitted to the Board on each aspect of corporate responsibility;
- the Board is committed to maintaining high standards of health and safety in all its business activities. These standards are set out in the Company's Health and Safety Policy which is regularly reviewed by the Board. The Risk Management team works with the business to assess health and safety risks and introduce systems to mitigate them. All notified accidents are investigated and targets are set to reduce the level of incidence;

- the Board has approved an Environmental Policy and sets environmental objectives and specific targets which are reviewed annually;
- the Board is committed to ensuring reasonable standards among its suppliers and has approved an Ethical Trading Code of Conduct setting out the standards it expects its suppliers to adopt. This policy covers health and safety, child labour, working hours, discrimination and the environment;
- the Company is committed to ensuring that its personnel meet good standards of integrity and competence. The Company's systems cover the recruitment, training and development of personnel, an appropriate division of responsibilities and the communication of Company policies and procedures throughout the organisation; and
- Business Recovery Plans exist to enable the business to continue in the event of a disaster with minimum disruption to customers.

AUDITOR INDEPENDENCE

The Board is satisfied that Deloitte & Touche LLP has adequate policies and safeguards in place to ensure that auditor objectivity and independence is maintained. The Board has also adopted a formal policy on the Company's relationship with its auditor in respect of non-audit work. The auditors may only provide such services provided that such advice does not conflict with their statutory responsibilities and ethical guidance. The Audit Committee Chairman's pre-approval is required before the Company uses non-audit services that exceed financial limits set out in the policy. The fees paid to the Auditors in respect of non-audit services are shown in Note 3 to the Accounts.

RELATIONS WITH SHAREHOLDERS

The Company recognises the importance of communicating with its shareholders to ensure that its strategy and performance is understood. This is achieved principally through the annual report and accounts and the AGM. In addition, a range of corporate information, including all Company announcements and presentations, is available to investors on the Company's website, www.whsmithplc.co.uk.

Formal presentations are made to institutional shareholders following the announcement of the Company's full year and interim results. The Board recognises that the AGM is the principal forum for dialogue with private shareholders. All directors normally attend the AGM and are available to answer any questions that shareholders may wish to raise. The Notice of Meeting is sent to shareholders at least 20 working days before the meeting. Those shareholders who have elected to receive electronic communications receive notice of the availability of the annual report on the Company's website.

Shareholders vote on each resolution on a show of hands, unless a poll is validly called, and after each such vote the number of proxy votes received for, against, and withheld is announced. The proxy figures are made available in writing at the end of the meeting, announced to the London Stock Exchange and published on the Company's website.

The Board as a whole is kept fully informed of the views and concerns of major shareholders. The Group Chief Executive and Group Finance Director update the Board following meetings with major shareholders and analysts' briefings are circulated to the Board. When requested to do so, the Chairman and non-executive directors attend meetings with major shareholders.

COMPLIANCE WITH THE COMBINED CODE

Throughout the year ended 31 August 2008 the Company has complied with the Code, except as follows:

A7.1 Re-appointment of directors. Prior to the adoption of the new Articles on 31 January 2008, the Articles provided that at the first three annual general meetings following the demerger on 31 August 2006, one third of the directors shall retire from office but shall be eligible for re-appointment. This provision was included in the Articles, as a result of the demerger, to provide an even spread of director re-appointments.

This Report has been prepared on behalf of the Board by the Remuneration Committee. In all its activities, the Remuneration Committee has adopted the principles of good governance relating to directors' remuneration as set out in the Combined Code on Corporate Governance and complies with the Companies Act 1985 as amended by the Directors' Remuneration Report Regulations 2002 and the Listing Rules of the Financial Services Authority. Part A of the report, which is not subject to audit, sets out the Company's remuneration policy. Part B, which has been audited, provides details of the remuneration, pensions and share incentives of the directors for the year ended 31 August 2008.

PART A – UNAUDITED INFORMATION

Remuneration Committee

The Remuneration Committee met five times during the year. It is chaired by John Barton and its other members are Mike Ellis, Luke Mayhew, Drummond Hall and Robert Walker. MT Rainey was a member of the Committee prior to her resignation on 31 January 2008. It is proposed that the Committee will review the position of John Barton as Chairman of the Committee during the financial year ending 31 August 2009.

The Committee's terms of reference, which are available on the Company's website www.whsmithplc.co.uk and from the Company Secretary on request, set out the responsibilities of the Committee which include determining and agreeing with the Board the broad policy for the remuneration of the Chairman, executive directors and certain other senior executives; in determining such policy to take into account all factors which it deems necessary, the objective of such policy being to ensure that executive management are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company; approving the design of, and targets for, any performance-related pay schemes operated by the Company and approving the total annual payments made under such schemes; reviewing the design of all share incentive plans for approval by the Board and shareholders; ensuring that contractual terms on termination, and any payments made, are fair to the individual, and the Company, and ensuring that failure is not rewarded and that the duty to mitigate loss is fully recognised; and in consultation with the Chairman and/or Chief Executive as appropriate, determining the total individual remuneration package of each executive director and other senior executives including bonuses and share incentives.

During the year the Committee received external advice and services from its external independent adviser, Mercer Limited ('Mercer'). During the year the Committee also received advice from an independent law firm, Allen & Overy LLP, who were appointed by the Company, in respect of share schemes. Mercer until March 2008 also provided the Company with actuarial advice in respect of the Company's pension schemes

and Allen & Overy LLP also provided the Company with other legal services. Ian Houghton, Company Secretary, also materially assisted the Committee in carrying out its duties, except in relation to his own remuneration.

Remuneration policy

The Company's remuneration policy aims to encourage a performance-based culture, attract and retain high calibre executive directors and align executive directors' and shareholders' interests. In forming this policy the Committee has adopted the principles set out in Section B of the Combined Code on Corporate Governance.

The aims of the policy are achieved by providing a remuneration package, comprising salary and benefits, positioned at the median of a comparator group of 20 peer companies in retail and related sectors, pension provision and performance-related benefits. Any payments made to executive directors other than salary are not pensionable. The performance-related benefits, which consist of an annual performance bonus and long-term incentives, account for a significant proportion of total remuneration.

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

Name	Fixed element	Performance-related elements	
	Base salary	Annual bonus	Long-term incentives
Kate Swann	22%	33%	45%
Alan Stewart	25%	32%	43%

- a) Kate Swann can earn up to 150 per cent of salary for maximum performance and Alan Stewart can earn up to 130 per cent of salary for maximum performance under the Annual Bonus Plan.
- b) The value placed on long-term incentives assumes maximum performance and comprises the value of shares awarded under the WH Smith LTIP.
- c) The above table does not include the value of other benefits and employer pension contributions.

During the year under review shareholders approved the adoption of the new WH Smith 2008 Management Investment Plan which has allowed the Company to put in place arrangements which are intended to help in the continued retention of the current management team going forward. The new Management Investment Plan also provides the current management team with the opportunity to demonstrate their continued commitment to, and belief in, the ongoing plans for the Company by investing their own money to buy ordinary shares. Awards to participants under the Management Investment Plan will only become exercisable provided that certain stretching performance conditions are met and their investment is retained over a period of three years. Subsequent invitations to participate in the MIP may be made at the discretion of the Committee.

SALARY AND BENEFITS

The salaries of executive directors are reviewed annually in September. When conducting this review, the Committee takes into account a range of factors including the Company's performance, market conditions, the prevailing market rates for similar positions in a comparable group of companies in the retail sector, the responsibilities, individual performance and experience of each executive director and the level of salary increases awarded to employees throughout the Company. Following the review in September 2008 the executive directors received basic pay increases of two per cent. Executive directors also receive taxable benefits including the provision of a company car and private medical insurance.

The fees paid to non-executive directors are determined by the Chairman and the executive members of the Board and are paid in cash. The levels are set to take into account the required time commitment and the fee payments for non-executive directors of similar organisations. The Chairman undertook a review of non-executive pay in May 2008 and it was agreed that the fees paid to non-executive directors should be increased from 1 June 2008. Non-executive directors do not participate in any bonus or share schemes. The fees comprise:

Basic Annual Fee – £40,000
Committee Chairman – £6,000*
Senior Independent Director – £5,000

* This fee is not paid to the Chairman of the Nominations Committee.

Annual bonus plan

For the year under review, Kate Swann had the opportunity to receive an annual bonus up to a maximum of 150 per cent of base salary and Alan Stewart had the opportunity to receive an annual bonus up to a maximum of 130 per cent of base salary. The plan is designed so that the level of bonus paid is dependent on the achievement of a profit before tax and after interest target and personal performance. No bonus is paid unless the minimum profit target is achieved. For the year under review Kate Swann received a bonus equivalent to 150 per cent of her base salary and Alan Stewart received a bonus equivalent to 104 per cent of his base salary. The annual bonus plan remains unchanged for the financial year ending 31 August 2009.

LONG-TERM INCENTIVES

WH Smith 2008 Management Investment Plan

Under this plan, approved by shareholders in January 2008, executive directors and key senior executives are given the opportunity to invest their own money to buy ordinary shares in the Company and are granted matching awards (in the form of nil cost options) to acquire further ordinary shares in proportion to the amount they have invested. Executive directors and certain other key executives may invest up to

150 per cent of base salary and other executives up to 75 per cent of base salary. The number of shares over which a matching award may be granted is up to five times the amount invested in the case of executive directors and up to 3.75 times the amount invested for other executives.

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

For awards granted in the financial year ended 31 August 2008, the extent to which matching awards vest will depend on the satisfaction of Earnings per Share ('EPS') and Total Shareholder Return ('TSR') performance targets. Where the performance conditions are met in full (described below as super-stretch performance), a Matching Award will vest in respect of all the Shares subject to it. Where the performance conditions are met at the minimum level (described below as threshold performance), a Matching Award will vest in respect of 30 per cent of the Shares subject to it. Where the performance conditions are met at the maximum level (described below as maximum performance), a Matching Award will vest as to 80 per cent of the Shares subject to it. For performance between these three levels a Matching Award will vest on a straight-line basis.

The performance targets are as follows:

- a) 60 per cent of the award is dependent on the satisfaction of an EPS performance target. EPS will be measured over the three years ending on 31 August 2010 and will measure growth in fully diluted EPS before exceptional items. Threshold performance will be achieved if there is EPS growth at a compound rate equal to eight per cent per annum. Maximum performance will be achieved if there is EPS growth at a compound rate equal to 13 per cent per annum. Super-stretch performance will be achieved if there is EPS growth at a compound rate equal to or exceeding 15 per cent per annum; and
- b) 40 per cent is dependent on the satisfaction of a TSR performance target. The TSR target will compare the TSR on an investment in the Company's ordinary shares with the TSR on a notional investment in the FTSE All Share General Retailers Index (the 'Index') over the period between 11 October 2007 and the announcement of the Company's results for the year ending 31 August 2010. Threshold performance will require that the Company's TSR is at the median position relative to the Index. Maximum performance will require the Company's TSR to be at the 75th percentile relative to the Index and super-stretch performance will require the Company's TSR to be at the 85th percentile relative to the Index.

The Remuneration Committee must also be satisfied that there has been an improvement in the Company's underlying financial performance in determining whether any payment should be made in respect of the satisfaction of the TSR Condition.

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

These two performance conditions will be tested separately.

WH Smith LTIP

Under this plan, approved by shareholders in August 2006, executive directors and key senior executives may be awarded each year conditional entitlements to either ordinary shares in the Company (in the form of nil cost options) or, in order to retain flexibility and at the Company's discretion, a cash sum linked to the value of a notional award of shares up to a value of 200 per cent of base salary. The Committee adopted a combination of financial and market-based measures to reward long-term sustained performance. It believes that such a combination of targets is best suited to the needs of the Company and its shareholders. The Committee will conduct its annual review of the performance targets prior to the grant of awards in October 2008.

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

- a) the performance condition applying to 60 per cent of the award shares is based on real growth in the adjusted EPS of the Company over the three years ending 31 August 2010 (the 'Performance Period') and vesting will occur on the following basis:

Annual rate of growth in adjusted EPS of the Company (compounded annually) in excess of growth in RPI over the Performance Period	Proportion exercisable
Below 3%	Zero
3%	30%
9% or more	100%
Between the above points	Pro rata between 30% and 100%

For these purposes EPS will be determined by reference to fully diluted EPS before exceptional items, adjusted as considered appropriate by the Committee to ensure consistency; and

- b) the performance condition applying to the remaining 40 per cent of such an award is based on the Company's Total Shareholder Return ('TSR')

performance against the FTSE All Share General Retailers Index over the Performance Period and vesting will occur on the following basis:

TSR performance ranking at end of Performance Period	Proportion exercisable
Below median	Zero
Median	30%
Upper quartile	100%
Between the above points	Pro rata between 30% and 100%

WH Smith share option schemes

The Company operates two types of share option scheme both of which were approved by shareholders in August 2006:

- a) an Executive Share Option Scheme which is used to grant options to executives up to an annual limit of 200 per cent of base salary. The performance target for options granted in the financial year ended 31 August 2008 is measured over a fixed three-year period and the proportion that will become exercisable increases on a straight-line basis from 40 per cent for adjusted EPS growth of RPI plus nine per cent to 100 per cent for adjusted EPS growth of RPI plus 15 per cent. The Committee believes that EPS growth provides focus on increasing the Company's share price over the medium to long-term and is the most appropriate measure of the Company's underlying financial performance. The Committee will conduct its annual review of the performance target prior to the grant of options in October 2008. The executive directors did not participate in this scheme in the financial year ended 31 August 2008; and
- b) a HM Revenue & Customs Approved Save-As-You-Earn share option scheme (the 'Sharesave Scheme'). The Sharesave Scheme is open to all UK employees who have completed one year's service and who enter an approved savings contract for a term of three or five years. The maximum amount which can be saved is £250 per month, the total savings at the end of the term being used to purchase shares at a price which is not less than 80 per cent of their market value at the start of the savings contract. In common with most schemes of this type, there are no performance conditions applicable to options granted under the Sharesave Scheme.

Pre-Demerger Share Plans

WH Smith 2004 Management Investment Plan

Under this plan, approved by shareholders in September 2004, executive directors and key senior executives invested their own money to buy ordinary shares in the Company and were granted matching awards (in the form of nil cost options) to acquire further ordinary shares in proportion to the amount they invested. Executive directors invested 100 per cent of base salary

and other executives up to 75 per cent of base salary. Following extensive consultation with shareholders, the Committee adopted a combination of financial and market-based measures aimed at delivering enhanced returns to shareholders.

The EPS performance condition required that EPS grow by RPI plus 20 per cent per annum over the performance period for vesting at threshold performance and RPI plus 30 per cent per annum for vesting at maximum performance. The inflation rate during the performance period was 3.4 per cent which meant that the threshold EPS for the Company was 23.3p and the maximum EPS was 29.3p.

The TSR performance condition measured the TSR of WH Smith against the TSR on a notional investment in the FTSE All Share General Retailers Index over the TSR performance period. The TSR performance condition was amended so that at the end of the performance period the market capitalisation of the Company and Smiths News PLC plus reinvested dividends paid over the whole of the performance period (whether paid by WH Smith or Smiths News) were added together to determine the percentage of Matching Awards that vested.

The Company fully met the performance conditions and 75 per cent of a participant's Matching Award was capable of exercise following the vesting date on 31 January 2008 and the remaining 25 per cent will be capable of exercise on 1 February 2009. Awards not exercised will lapse on 1 February 2010.

WH Smith 2004 L-TIP

Following extensive consultation with shareholders regarding the WH Smith 2004 Management Investment Plan performance targets, the Committee adopted a combination of financial and market-based measures to reward long-term sustained performance. It believed that such a combination of targets was best suited to the needs of the Company and its shareholders. The performance conditions for awards granted in the financial years ended 31 August 2006 and 31 August 2007 were split equally between EPS and TSR and are otherwise the same as those performance conditions for awards granted under the WH Smith LTIP in the financial year ended 31 August 2008 described on page 36.

WH Smith Executive Share Option Scheme 1999

The performance condition for all options granted in the financial years ended 31 August 2006 and 31 August 2007 is the same as the performance condition for options granted under the WH Smith Executive Share Option Scheme in the financial year ended 31 August 2008 described on page 36. The Committee believed that EPS growth provides focus on increasing the Company's share price over the medium to long-term and was the most appropriate measure of the Company's underlying financial performance.

Personal shareholdings

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

Contracts of service

The contract dates and notice periods for each executive director are as follows:

	Date of contract	Notice period by Company	Notice period by director
Kate Swann	2 July 2003	1 year	9 months
Alan Stewart	3 March 2005	1 year	9 months

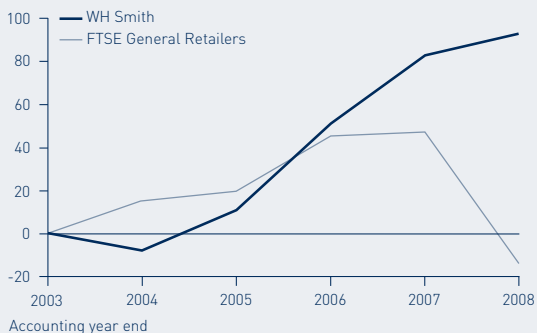
It is the Company's policy to enter into contracts of employment with executive directors which may be terminated at any time by the Company upon 12 months' notice and upon nine months' notice by the executive director. Under the Company's policy, in the event of a change of control of the Company there is a provision in each executive director's contract which provides for a payment of liquidated damages of 95 per cent of salary and benefits if the contract is terminated in breach of the notice period. In other circumstances, the Committee believes that any question of compensation should be decided upon at the appropriate time rather than in advance so that the principle of mitigation is applied in the particular circumstances.

The Chairman, who has a letter of appointment, is appointed for an initial term of three years and is subject to re-election by shareholders every three years at the Annual General Meeting. His appointment may be terminated at any time by either the Company or the Chairman without notice.

The non-executive directors, who have letters of appointment, are appointed for an initial term of three years and are subject to re-election by shareholders every three years at the Annual General Meeting. These appointments can be terminated by either the Company or the non-executive director without notice.

Performance graph

Cumulative TSR Growth since 31 August 2003



- a) The graph illustrates the TSR performance on a cumulative basis (with dividends reinvested) as at the end of each of the last five financial years compared with the FTSE All Share General Retailers Index over the same period.
- b) WH Smith is a member of the FTSE All Share General Retailers Index and, as such, this sector was considered to be the most appropriate comparator group upon which a broad equity market index is calculated.

WH Smith Employee Benefit Trust

The WH Smith Employee Benefit Trust is used to facilitate the acquisition of ordinary shares in the Company for the purpose of satisfying awards and options granted under the Company’s executive share schemes. The Trust is a discretionary trust, the sole beneficiaries being employees (including executive directors) and former employees of the Group and their close relations. The Trustee is Lloyds TSB Offshore Trust Company Limited, an independent professional trustee company based in Jersey. It is the Company’s intention to use the ordinary shares in the Trust to satisfy all outstanding awards and options made under the Company’s executive share schemes.

Following the share consolidation and further purchases of 1,910,054 shares, the number of WH Smith shares held in the WH Smith Employee Benefit Trust at 31 August 2008 was 7,777,409. The accounting treatment is shown in the Reconciliation of Movements in Equity on page 46.

Pensions

For the year under review, the Company operated a defined contribution pension scheme, WH Smith Retirement Savings Plan. Under this scheme an executive director may contribute up to an amount equivalent to five per cent of salary which is then matched by the Company. In addition, a pension supplement is also payable which may be taken as an additional pension contribution or as an addition to basic pay. For the financial year ended 31 August 2008 the total contribution for Kate Swann was equivalent to 35 per cent of salary and for Alan Stewart was 30 per cent of salary.

External appointments

The Company believes there are significant benefits to the individual and the Company from executive directors accepting non-executive directorships in other organisations. Each executive director may accept up to two non-executive directorships provided they are not both appointments to companies in the FTSE 100 or are chairmanships of a FTSE 100 company. Non-executive directorships must not conflict with the interests of the Company.

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

Directorship		Received £'000s	Retained £'000s
Kate Swann	The British Land Company PLC	53	53
Alan Stewart	Games Workshop Group PLC	30	30

PART B – AUDITED INFORMATION

Directors' remuneration

The remuneration of the directors for the financial year ended 31 August 2008 was as follows:

	Salary / fees £'000s	Annual performance bonus £'000s	Benefits, pension supplement and other payments £'000s	Total £'000s	Year to 31 August 2007 £'000s
Robert Walker	200	–	–	200	200
Kate Swann	514	771	168	1,453	1,428
Alan Stewart	318	331	93	742	804
John Barton	50	–	–	50	49
Mike Ellis	43	–	–	43	42
Luke Mayhew	39	–	–	39	38
MT Rainey	16	–	–	16	38
Total £'000s	1,180	1,102	261	2,543	2,599

- MT Rainey resigned as a director of the Company on 31 January 2008.
- Drummond Hall was appointed as a non-executive director on 1 September 2008 and is paid £40,000 per annum.
- The fees payable to the Company's non-executive directors were increased on 1 June 2008 as set out on page 35.
- Benefits and other payments relate mainly to the provision of a company car, private medical insurance and any salary supplement paid in respect of pension entitlement.

Directors' pensions

Defined contribution scheme

The following executive directors were members of a defined contribution scheme during the year ended 31 August 2008:

	Employee contribution		Employer contribution	
	% of salary	£'000s	% of salary	£'000s
Kate Swann	5	25	38	199
Alan Stewart	5	16	5	16

- Executive directors receive a pension supplement which may be taken as an additional pension contribution or as an addition to basic pay, this payment if taken as an addition to basic pay is included in the table of Directors' remuneration under the heading Benefits, pension supplement and other payments.
- The Company contribution for Kate Swann included a payment of £174,000 in respect of the bonus sacrifice that she made in November 2007. This sum was included in the bonus payment that Kate Swann received for the year ended 31 August 2007 and was included in the table of Directors' remuneration under the heading Annual performance bonus.
- The dependants of executive directors are eligible for payment of a lump sum in the event of death-in-service equivalent to four times salary.

Long-term incentives
Share award schemes

Details of the conditional awards (in the form of nil-cost options) to acquire ordinary shares of the Company (and, in respect of the WH Smith 2004 Management Investment Plan, ordinary shares of Smiths News) granted to executive directors are as follows:

	Date of grant	Number of shares subject to awards at 31 August 2007	Number of shares subject to awards granted during the year	Number of shares subject to awards exercised during the year	Number of shares subject to awards at 31 August 2008	Share price at date of grant (pence)	Exercise period
Kate Swann							
WH Smith 2004 Management Investment Plan	03.11.04	717,778	-	428,731	235,047	343.00	31.01.09 - 01.02.10
WH Smith 2004 L-TIP	02.11.05	184,675	-	-	184,675	267.00	09.10.08 - 02.11.15
	09.02.06	124,911	-	-	124,911	296.00	February 2009 - 09.02.16
WH Smith LTIP	19.10.06	296,450	-	-	296,450	350.00	October 2009 - 19.10.16
WH Smith 2008 Management Investment Plan	22.11.07	-	1,217,441	-	1,217,441	316.75	October 2010 - October 2012
Total		1,323,814	1,217,441	428,731	2,058,524		
Alan Stewart							
WH Smith 2004 Management Investment Plan	26.04.05	412,179	-	277,205	134,974	359.00	31.01.09 - 01.02.10
WH Smith 2004 L-TIP	02.11.05	114,347	-	-	114,347	267.00	09.10.08 - 02.11.15
	09.02.06	77,342	-	-	77,342	296.00	February 2009 - 09.02.16
WH Smith LTIP	19.10.06	160,612	-	-	160,612	350.00	October 2009 - 19.10.16
WH Smith 2008 Management Investment Plan	22.11.07	-	753,818	-	753,818	316.75	October 2010 - October 2012
Total		764,480	753,818	277,205	1,241,093		

- a) In respect of the Matching Awards granted under the WH Smith 2004 Management Investment Plan the number in the table shows both the number of ordinary shares in the Company and the number of ordinary shares in Smiths News subject to such awards. The share price for such awards is the middle market quotation for a WH Smith share as at the date of award.
- b) As a result of the demerger, WH Smith 2004 L-TIP awards granted on 02.11.05 and 09.02.06 were exchanged for equivalent new awards over ordinary shares in the Company. The intrinsic value of the shares under the exchanged awards remained the same and, as such, the share price of these awards at the date of grant has been adjusted accordingly.
- c) The number of shares subject to awards is the maximum (100 per cent) number of shares that could be received by the executive if the performance targets are fully met.
- d) The Company fully met the performance targets (set out on page 37) for awards granted under the WH Smith 2004 Management Investment Plan. 75 per cent of an award was capable of exercise immediately following the vesting date (31 January 2008) and 25 per cent will be capable of exercise on 31 January 2009. Awards not exercised will lapse on 1 February 2010.
- e) In respect of the award under the WH Smith 2004 Management Investment Plan held by Kate Swann which vested on 31 January 2008, the value of the 428,731 Company shares on the date of exercise was £1,777,587 (368.2355p per ordinary share) and the value of the 717,778 Smiths News shares on the date of exercise was £738,168.18 (102.84p per ordinary share).

- f) In respect of the award under the WH Smith 2004 Management Investment Plan held by Alan Stewart which vested on 31 January 2008, the value of the 277,205 Company shares on the date of exercise was £1,132,257.13 (408.45p per ordinary share) and the value of the 412,179 Smiths News shares on the date of exercise was £408,254.20 (99.05p per ordinary share).
- g) The awards granted under the WH Smith 2004 L-TIP will only vest to the extent that the performance targets as set out on page 37 are satisfied.
- h) The awards granted under the WH Smith LTIP will only vest to the extent that the performance targets as set out on page 36 are satisfied.
- i) Matching awards granted under the WH Smith 2008 Management Investment Plan were granted conditionally upon approval of the plan by shareholders at the Annual General Meeting on 31 January 2008 and will only vest to the extent that the performance targets as set out on page 35 are satisfied.
- j) No option price is payable on either the grant or exercise of any award.

Share option schemes

Details of the options to acquire ordinary shares of the Company granted to executive directors are as follows:

	Date of grant	Shares subject to options at 31 August 2007	Shares subject to options granted during the year	Shares subject to options exercised during the year	Shares subject to options at 31 August 2008	Option price (pence)	Exercise period
Kate Swann							
SAYE	29.11.06	3,201	–	–	3,201	295.20	01.02.10 – 31.07.10
Total		3,201	–	–	3,201		
Alan Stewart							
SAYE	29.11.06	3,201	–	–	3,201	295.20	01.02.10 – 31.07.10
Total		3,201	–	–	3,201		

- a) The middle market price of an ordinary share at the close of business on 31 August 2008 was 385p (31 August 2007; 409.5p).
- b) The high and low middle market prices of an ordinary share during the year were 441.50p and 295.21p respectively.
- c) No options lapsed during the year.
- d) No options have been granted to or exercised by directors between 1 September 2008 and 9 October 2008.

Directors' interests in shares

The beneficial interests of the directors and their immediate families in the ordinary shares of the Company are set out below:

	31 August 2008	31 August 2007
John Barton	14,486	16,000
Mike Ellis	4,527	5,000
Drummond Hall	–	–
Luke Mayhew	7,243	8,000
Alan Stewart	113,351	82,194
Kate Swann	280,765	191,391
Robert Walker	39,743	25,500

There has been no change in the directors' interests shown above between 1 September 2008 and 9 October 2008.

Shareholder approval

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

By Order of the Board

John Barton
Chairman of the Remuneration Committee
 9 October 2008

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF WH SMITH PLC

We have audited the Group financial statements of WH Smith PLC for the year ended 31 August 2008 which comprise the Group income statement, the Group balance sheet, the Group cash flow statement, the Group statement of recognised income and expense, the reconciliation of movements in equity and the related notes 1 to 34. These Group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

We have reported separately on the individual Company financial statements of WH Smith PLC for the year ended 31 August 2008.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view, whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the part of the directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the directors' report is consistent with the Group financial statements. The information given in the directors' report includes that specific information presented in the Business Review and the Financial Review that is cross referred from the directors' report. In addition we also report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report as described in the contents section and consider whether it is consistent with the audited Group financial statements.

We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any further information outside the annual report.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements and the part of the directors' remuneration report described to be audited.

OPINION

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 August 2008 and of its profit for the year then ended; and
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the part of the directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the Group financial statements.

SEPARATE OPINION IN RELATION TO IFRSs

As explained in Note 1 of the Group financial statements, the Group, in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board. In our opinion the financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 31 August 2008 and of its profit for the year then ended.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors

London
9 October 2008

GROUP INCOME STATEMENT**FOR THE YEAR ENDED 31 AUGUST 2008**

£m	Note	2008			2007		
		Before exceptional items	Exceptional items	Total	Before exceptional items	Exceptional items	Total
Continuing operations							
Revenue	2	1,352	–	1,352	1,299	–	1,299
Operating profit	2, 3, 4	74	–	74	67	10	77
Investment income	11	5	–	5	5	–	5
Finance costs	12	(3)	–	(3)	(6)	–	(6)
Profit before tax		76	–	76	66	10	76
Income tax expense	13	(17)	–	(17)	(13)	(3)	(16)
Profit after tax from continuing operations		59	–	59	53	7	60
Profit for the year		59	–	59	53	7	60
Earnings per share¹							
Basic	15			36.4p			34.3p
Diluted	15			35.3p			33.1p
Non GAAP measures							
Underlying earnings per share²							
Basic	15			36.4p			30.3p
Diluted	15			35.3p			29.3p
Equity dividends per share³				14.3p			11.8p
Fixed charges cover	9			1.4x			1.4x

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

² Underlying earnings per share excludes exceptional items

³ Dividend per share is the final proposed dividend of 9.7p (2007: 8.1p) and the interim dividend of 4.6p (2007: 3.7p) excluding the special dividend of 33p per ordinary share paid on 29 February 2008 (2007: nil)

GROUP BALANCE SHEET**AS AT 31 AUGUST 2008**

£m	Note	2008	2007
Non-current assets			
Goodwill	16	32	15
Other intangible assets	17	23	20
Property, plant and equipment	19	177	176
Deferred tax assets	26	11	15
Trade and other receivables	21	4	5
		247	231
Current assets			
Inventories		147	141
Trade and other receivables	21	70	59
Available for sale investments	20	–	4
Derivative financial assets	30	2	–
Cash and cash equivalents	27	22	82
		241	286
Total assets		488	517
Current liabilities			
Trade and other payables	22	(239)	(217)
Current tax liabilities		(31)	(25)
Obligations under finance leases	24, 27	(4)	(3)
Bank overdrafts and other borrowings	27	(25)	(9)
Short-term provisions	25	(4)	(6)
Derivative financial liabilities	30	–	(1)
		(303)	(261)
Non-current liabilities			
Retirement benefit obligation	6	–	–
Deferred tax liabilities	26	(10)	(12)
Long-term provisions	25	(4)	(4)
Obligations under finance leases	24, 27	(2)	(6)
Other non-current liabilities	23	(8)	(7)
		(24)	(29)
Total liabilities		(327)	(290)
Total net assets		161	227
Total equity		161	227

£m	Note	2008	2007
Shareholders' equity			
Called up share capital	31	35	37
Capital redemption reserve		2	–
Revaluation reserve		2	4
ESOP reserve		(28)	(29)
Hedging reserve		2	(1)
Translation reserve		(2)	(2)
Other reserve		(179)	(165)
Retained earnings		329	383
Total equity		161	227

These financial statements were approved by the Board of Directors and authorised for issue on 9 October 2008 and were signed on its behalf by:

Kate Swann
Group Chief Executive

Alan Stewart CA (SA)
Group Finance Director

GROUP CASH FLOW STATEMENT**FOR THE YEAR ENDED 31 AUGUST 2008**

£m	Note	2008	2007
Net cash inflow from operating activities	29	104	83
Investing activities			
Interest received		4	5
Proceeds on disposal of property, plant and equipment		3	2
Non-operating disposal costs		-	(3)
Acquisition of businesses		(24)	-
Purchase of property, plant and equipment		(35)	(26)
Purchase of intangible assets		(4)	(6)
Net cash outflow from investing activities		(56)	(28)
Financing activities			
Interest paid		(1)	(2)
Dividend paid		(78)	(17)
Purchase of own shares for cancellation		(33)	-
Purchase of own shares for employee share schemes		(9)	(12)
Proceeds from borrowings		25	-
Repayments of borrowings		(9)	(4)
Repayments of obligations under finance leases		(3)	(3)
Derivative cash movements		-	(1)
Net cash used in financing activities		(108)	(39)
Net (decrease) / increase in cash and cash equivalents – continuing operations		(60)	19
Net decrease in cash and cash equivalents – discontinued operations		-	(3)
Net (decrease) / increase in cash and cash equivalents in year		(60)	16
Opening net cash and cash equivalents		82	66
Closing net cash and cash equivalents		22	82

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

£m	Note	2008	2007
Net funds at beginning of the year		64	42
(Decrease) / increase in cash and cash equivalents		(60)	16
(Increase) / decrease in debt		(16)	4
Net movement in finance leases		3	2
Net (debt) / funds at end of the year	27	(9)	64

GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE**FOR THE YEAR ENDED 31 AUGUST 2008**

£m	2008	2007
Actuarial (losses) / gains on defined pension schemes (Note 6)	(10)	23
Tax on items taken directly to equity		
– deferred tax	1	(13)
– current tax	–	5
Net (expense) / income recognised directly in equity	(9)	15
Profit for the year	59	60
Total recognised income and expense for the year	50	75

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

RECONCILIATION OF MOVEMENTS IN EQUITY**FOR THE YEAR ENDED 31 AUGUST 2008**

£m	Share capital	Capital redemption reserves	Revaluation reserve	ESOP reserve	Hedging and translation reserves	Other reserve ¹	Retained earnings	Total
Balance at 1 September 2006	357	–	3	(22)	(4)	(166)	–	168
Total recognised income and expense for the year	–	–	–	–	1	–	74	75
Recognition of share-based payments	–	–	–	–	–	–	6	6
Dividends paid	–	–	–	–	–	–	(17)	(17)
Employee share schemes	–	–	–	(9)	–	1	–	(8)
Court approved capital reduction	(320)	–	–	–	–	–	320	–
Transfer to available for sale financial investments	–	–	1	2	–	–	–	3
Balance at 1 September 2007	37	–	4	(29)	(3)	(165)	383	227
Total recognised income and expense for the year	–	–	–	–	–	–	50	50
Recognition of share-based payments	–	–	–	–	–	–	6	6
Dividends paid	–	–	–	–	–	–	(78)	(78)
Employee share schemes	–	–	(1)	1	–	(14)	–	(14)
Purchase of own shares for cancellation	(2)	2	–	–	–	–	(33)	(33)
Profit realised on sale of previously revalued freehold property	–	–	(1)	–	–	–	1	–
Mark to market valuation	–	–	–	–	3	–	–	3
Balance at 31 August 2008	35	2	2	(28)	–	(179)	329	161

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

1. ACCOUNTING POLICIES

a) Basis of preparation

The consolidated Group financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. These are the standards, subsequent amendments and related interpretations issued and adopted by the International Accounting Standards Board ('IASB') that have been endorsed by the European Union at the year end.

The consolidated Group financial statements have also been prepared in accordance with IFRS adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

New Standards

At the date of authorisation of these consolidated Group financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer Loyalty Programmes
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
Amendment to IAS 1	Presentation of Financial Statements
Amendment to IAS 23	Borrowing Costs
Amendment to IAS 27	Consolidated and Separate Financial Statements
Amendment to IAS 31	Interests in Joint Ventures
Amendment to IAS 32 and IAS 1	Puttable financial instruments and obligations arising on liquidation
Amendment to IFRS 2	Share-based payments
Amendment to IFRS 3	Business Combinations
IFRS 8	Operating Segments

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

Accounting convention

The financial statements are drawn up on the historical cost basis of accounting. The financial information is rounded to the nearest million, except where otherwise indicated. The principal accounting policies, which have been applied consistently throughout both years, are set out below.

Basis of consolidation

The consolidated Group financial statements incorporate the financial statements of WH Smith PLC and all its subsidiaries up to the year end date.

Subsidiary undertakings are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights so to obtain benefits from its activities.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, after taking into account recognised goodwill, the excess is immediately recognised in the income statement.

The separable net assets, both tangible and intangible of the newly acquired subsidiary undertakings are incorporated into the financial statements on the basis of the fair value as at the effective date of control, if appropriate.

Results of subsidiary undertakings disposed of during the financial year are included in the financial statements up to the effective date of disposal. Where a business component representing a separate major line of business is disposed of, or classified as held for sale, it is classified as a discontinued operation. The post-tax profit or loss of the discontinued operations is shown as a single amount on the face of the income statement, separate from the other results of the Group.

All intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated.

b) Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services to customers, together with commission and fee income on concession and franchise arrangements. Revenue excludes discounts, estimated returns, VAT and other sales related taxes.

Revenue on store sales of goods and concession sales is recognised when goods are sold to the customer. Internet sales are recognised when the goods are delivered to the customer and title has passed. Revenue from gift vouchers and gift cards sold by the Group is recognised on the redemption of the gift voucher or gift card. Franchise and concession fees are recognised in revenue based on the terms of the contracts.

1. ACCOUNTING POLICIES (CONTINUED)

c) Retirement benefit costs

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

The cost of providing benefits for the main defined benefit scheme, WHSmith Pension Trust, and the acquired United News Shops Retirement Benefit Scheme are determined by the Projected Unit Credit Method, with actuarial calculations being carried out at the balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement in the consolidated statement of recognised income and expense.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation, as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from the calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

d) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value determined at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and a reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised directly in the income statement.

Rentals payable and receivable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term. The Group has a number of lease arrangements in which the rent payable is contingent on revenue. Contingent rentals payable, based on store revenues, are accrued in line with revenues generated.

e) Intangible assets

Business Combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control, of the acquiree, plus any costs directly attributable to the business combination. The cost of a business combination

is allocated at the acquisition date by recognising the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at that date. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree. Intangible assets are recognised if they meet the definition of an intangible asset contained in IAS 38 and its fair value can be measured reliably. The excess of the cost of acquisition over the fair value of the Group's share of identifiable net assets acquired is recognised as goodwill.

Goodwill

Goodwill represents the excess of the fair value of purchase consideration over the net fair value of identifiable assets and liabilities acquired.

Goodwill is recognised as an asset at cost and subsequently measured at cost less accumulated impairment. For the purposes of impairment testing, goodwill is allocated to those cash generating units that have benefited from the acquisition. The carrying value of goodwill is reviewed for impairment at least annually or where there is an indication that goodwill may be impaired. If the recoverable amount of the cash generating unit is less than its carrying amount, then the impairment loss is allocated first to reduce the carrying amount of the goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit and loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1 June 1997 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Other intangible assets

The costs of acquiring and developing software that is not integral to the related hardware is capitalised separately as an intangible asset. These intangibles are stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged so as to write off the costs of assets over their estimated useful lives, using the straight-line method. The estimated lives are usually a period of up to five years. Software assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

Other intangible assets are valued at cost and amortised over their useful life unless the asset can be demonstrated to have an indefinite life.

All intangible assets are reviewed for impairment in accordance with IAS 36 'Impairment of Assets', when there are indications that the carrying value may not be recoverable.

f) Property, plant and equipment

Property, plant and equipment assets are carried at cost less accumulated depreciation and any recognised impairment in value. The carrying values of tangible fixed assets previously revalued have been retained at their book amount.

Depreciation is charged so as to write off the costs of assets, other than land, over their estimated useful lives, using the straight-line method, with the annual rates applicable to the principal categories being:

Freehold and long leasehold properties	over 20 years
Short leasehold properties	shorter of the lease period and the estimated remaining economic life
In store fixtures and fittings	up to ten years
Equipment	eight to ten years
Computer equipment	up to five years

The residual values of property, plant and equipment are re-assessed on an annual basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

At each balance sheet date, property, plant and equipment is reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of expected future pre-tax cash flows of the relevant cash generating unit or fair value, less costs to sell, if higher. Any impairment in value is charged to the income statement in the period in which it occurs.

g) Non-current assets held for resale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

h) Inventories

Inventories comprise goods held for resale and are stated at the lower of cost or net realisable value. Concession stocks are not included within stocks held by the Group. Inventories are valued using a weighted average cost method.

Cost is calculated to include, where applicable, duties, handling, transport and directly attributable costs in bringing the inventories to their present location and condition. Net realisable value is based on estimated normal selling prices less further costs expected to be incurred in selling and distribution. Cost of inventories includes the transfer from equity of any gains or losses on qualifying cash flow hedges relating to purchases.

Provisions are made for obsolescence, markdown and shrinkage.

i) Provisions

Provisions are recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date. Where the effect is material, the provision is determined by discounting the expected future cash flows at the Group's weighted average cost of capital.

Onerous contracts – property provisions

The Group's property provisions represent the present value of future net lease obligations and related costs of leasehold property (net of estimated sublease income and adjusted for certain risk factors) where the space is vacant or currently not planned to be used for ongoing operations. The periodic unwinding of the discount is treated as an imputed interest charge and is disclosed in the income statement as 'unwinding of discount on provisions'.

j) Foreign currencies

Transactions denominated in foreign currencies are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the period.

1. ACCOUNTING POLICIES (CONTINUED)**j) Foreign currencies (continued)**

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts and options (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

On consolidation the assets and liabilities of the Group's overseas operations are translated into sterling at exchange rates prevailing on the balance sheet date. Income and expense items are translated into sterling at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve.

k) Taxation

The tax expense included in the income statement comprises current and deferred tax.

Current tax is the expected tax payable based on the taxable profit for the period, using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the accounts and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

l) Financial instruments**Trade receivables**

Trade receivables are measured at initial recognition, do not carry any interest and are stated at their fair value and are subsequently measured at amortised costs using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is evidence that the asset is impaired.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Bank borrowings

Interest bearing bank loans and overdrafts are initially measured at fair value (being proceeds received, net of direct issue costs), and are subsequently measured at amortised cost, using the effective interest rate method recorded as the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemptions and direct issue costs are accounted for on an accruals basis and taken to the income statement using the effective interest rate method and are added to the carrying value of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued are recorded at the proceeds received, net of direct issue costs.

Available for sale financial assets

The Group classifies its investments as 'available for sale financial assets' in accordance with IAS 39. Available for sale investments are non-derivative assets. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. After initial recognition, available for sale financial assets are measured at fair value with temporary gains or losses being recognised within equity until the investment is disposed or is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

Derivative financial instruments and hedge accounting

The Group uses certain derivative financial instruments to reduce its exposure to foreign exchange and interest rate movements. The Group does not hold or use derivative financial instruments for speculative purposes.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and any ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net income.

For an effective hedge of an exposure to changes in the fair value of a recognised asset or liability, changes in fair value of the hedging instrument are recognised in profit or loss at the same time that the recognised asset or liability that is being hedged is adjusted for movements in the hedged risk and that adjustment is also recognised in profit or loss in the same period.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the net profit or loss for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

m) Share schemes

WHSmith Employee Benefit Trust

The shares held by the WHSmith Employees Benefit Trust are valued at the historical cost of the shares acquired. They are deducted in arriving at shareholders' funds and are presented as an other reserve in line with IAS 32 'Financial Instruments: Disclosure and Presentation'.

Share-based payments

Employees of the Group receive part of their remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity settled transactions).

Equity settled share-based payments are measured at fair value at the date of grant. The fair value is calculated using an appropriate option pricing model. The fair value is expensed to the income statement on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

n) Dividends

Final dividends are recorded in the financial statements in the period in which they are approved by the Company's shareholders. Interim dividends are recorded in the period in which they are approved and paid.

o) Critical accounting judgements and key sources estimation uncertainty

Retirement benefit obligation

The Group recognises and discloses its retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Retirement Benefit Obligations'. The calculations include a number of judgements and estimations in respect of the expected rate of return on assets, the discount rate, inflation assumptions, the rate of increase in salaries, and life expectancy, amongst others. Changes in these assumptions can have a significant effect on the value of the retirement benefit obligation.

In order to reduce the volatility in the underlying investment performance substantially and reduce the risk of a significant increase in the obligation, a new investment policy in respect of the assets of the WHSmith Pension Trust was adopted in September 2005. This is discussed in more detail in Note 6.

2. SEGMENTAL ANALYSIS OF RESULTS

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

i) Segmental analysis by business segments

a) Group revenue

£m	2008	2007
Continuing operations:		
High Street	939	961
Travel	413	338
Group revenue	1,352	1,299

b) Group results

£m	2008	2007
Continuing operations:		
High Street	47	44
Travel	41	36
Trading profit	88	80
Unallocated costs	(14)	(13)
Group operating profit before exceptional items	74	67
Exceptional items (Note 4)	-	10
Group operating profit	74	77
Investment income	5	5
Finance costs	(3)	(6)
Income tax expense	(17)	(16)
Profit for the year	59	60

c) Balance sheet

£m	2008					2007				
	High Street	Travel	Continuing operations	Discontinued operations	Group	High Street	Travel	Continuing operations	Discontinued operations	Group
Assets										
Segment assets	346	110	456	-	456	344	75	419	-	419
Unallocated assets	-	-	32	-	32	-	-	98	-	98
Consolidated total assets	346	110	488	-	488	344	75	517	-	517
Liabilities										
Segment liabilities	(183)	(57)	(240)	(5)	(245)	(186)	(43)	(229)	(5)	(234)
Unallocated liabilities	-	-	(82)	-	(82)	-	-	(56)	-	(56)
Consolidated total liabilities	(183)	(57)	(322)	(5)	(327)	(186)	(43)	(285)	(5)	(290)
Net assets	163	53	166	(5)	161	158	32	232	(5)	227

d) Other segmental items

£m	2008					2007				
	High Street	Travel	Continuing operations	Discontinued operations	Group	High Street	Travel	Continuing operations	Discontinued operations	Group
Capital additions	28	11	39	–	39	22	11	33	–	33
Depreciation and amortisation of non-current assets	(32)	(7)	(39)	–	(39)	(33)	(5)	(38)	–	(38)
Impairment losses	(2)	(1)	(3)	–	(3)	(3)	–	(3)	–	(3)

Segment assets include intangible assets, property, plant and equipment, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities. Information on discontinued operations is shown in Note 5.

ii) Segmental analysis by geographical area

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

3. GROUP OPERATING PROFIT

£m	2008	2007
Turnover	1,352	1,299
Cost of sales	(720)	(708)
Gross profit	632	591
Distribution costs	(479)	(444)
Administrative expenses	(84)	(75)
Pre-exceptional operating items	(84)	(85)
Exceptional operating items ¹	–	10
Other income ²	5	5
Group operating profit	74	77

¹ The exceptional operating items are detailed in Note 4

² Other income is profit attributable to property and the sale of plant and equipment. During the period there was a £2m impairment charge for property, plant and equipment and other intangible assets included in distribution costs (2007: £3m)

£m	2008	2007
Cost of inventories recognised as an expense	720	708
Write-down of inventories in the period	5	6
Depreciation and amounts written off property, plant and equipment	35	35
Amortisation and amounts written off intangible assets	7	6
Net operating lease charges		
– land and buildings	170	148
– equipment and vehicles	1	1
Other occupancy costs	55	53
Staff costs (Note 7)	194	180
Auditors' remuneration (see below)	–	–
Fees payable to Deloitte & Touche LLP, the Group's auditors, included in the income statement relate to:		
Fees payable to the Group's auditors for the audit of the Group's annual accounts	0.2	0.2
Fees payable to the Group's auditors for other services to the Group including the audit of the Company's subsidiaries	0.1	0.1
Total audit fees	0.3	0.3
Non-audit fees including taxation and other services	0.2	0.1
	0.5	0.4

4. EXCEPTIONAL ITEMS

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

£m	2008	2007
Pension curtailment	-	10
	-	10

In the prior year, the WHSmith Pension Trust was closed to service accrual. This led to a non cash curtailment gain of £10m. Further details are included in Note 6.

5. DISCONTINUED OPERATIONS

There were no results from discontinued operations during the current or prior year.

The cash flows of discontinued operations comprise:

£m	2008	2007
From operating activities	-	-
From investing activities	-	(3)
From financing activities	-	-
Net decrease in cash and cash equivalents	-	(3)

6. 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, WHSmith Retirement Savings Plan. The most significant scheme is WHSmith Pension Trust, which is described in Note 6 a) i). The scheme is independent of the Company and is administered by a Trustee. The Trustee of the Pension Trust has extensive powers over the pension plan's arrangements, including the ability to determine the levels of contribution. The scheme has been closed to new members since 1996.

As part of the acquisition of UNS Group Limited, the Group acquired its defined benefit pension scheme, United News Shops Retirement Benefits Scheme. United News Shops Retirement Benefits Scheme had no active members at acquisition and is closed to new entrants. The net retirement obligation at acquisition was £nil (see Note 18).

a) Defined benefit pension scheme**i) The WHSmith Pension Trust**

On 2 April 2007, the WHSmith Pension Trust was closed to defined benefit service accrual. The actuarial impact of this change on the liabilities of the WHSmith Pension Trust has been reflected in the non cash curtailment gain of £10m in the prior year.

During the year, the Group made a contribution of £10m to the WHSmith Pension Trust (2007: £10m) in accordance with the agreed pension deficit funding schedule. In the prior year the Group also made a one off contribution of £25m as part of the demerger from Smiths News PLC.

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 2006 by independent actuaries, Mercer Limited, using the projected unit credit method.

In September 2005, the Pension Trust Trustee adopted a new investment policy in order to substantially reduce 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 assets being 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').

The key features of this new investment policy were that:

- 96 per cent of the Pension Trust's assets were invested in an LDI policy with a leading international institutional fund manager; and
- 4 per cent of the Pension Trust's assets were used to purchase a portfolio of long-dated equity call options. These represented a notional exposure to underlying equities of some £193m.

The amounts recognised in the balance sheet within non-current liabilities in relation to this plan are as follows:

£m	2008	2007
Present value of the obligations	(662)	(657)
Fair value of plan assets	793	657
Surplus in the scheme	131	–
Amounts not recognised	(131)	–
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 £131m (2007: £nil) available on a reduction of future contributions is £nil (2007: £nil). As a result the Group has not recognised this IAS 19 surplus on the balance sheet. On an ongoing funding basis the gross actuarial defined benefit pension deficit at 31 August 2008 for WH Smith PLC was approximately £60m (approximately £43m net of related deferred taxes) (2007: approximately £46m and approximately £33m net of related deferred taxes) for the Pension Trust. There is an ongoing deficit primarily due to the different assumptions and calculation methodologies used compared to those under IAS 19.

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 actuarial valuation were:

%	2008	2007
Rate of increase in salaries	4.10	4.24
Rate of increase in pension payments and deferred pensions	4.07	3.24
Discount rate	6.25	5.53
Inflation assumptions	4.07	3.24

The amounts recognised in the income statement were as follows:

£m	2008	2007
Current service cost	–	(4)
Curtailement gain	–	10
Interest cost	(36)	(34)
Expected return on scheme assets	36	32
	–	4

The charge for the current service cost and the prior year exceptional curtailment gain have been included in administrative costs. The interest cost net of the expected return on scheme assets has been included in finance costs (Note 12). Actuarial gains and losses have been reported in the statement of recognised income and expense.

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

£m	2008	2007
At 1 September	(657)	(674)
Current service cost	–	(4)
Interest cost	(36)	(34)
Actuarial gains and losses	11	22
Curtailement gain	–	10
Benefits paid	20	23
As at 31 August	(662)	(657)

6. RETIREMENT BENEFIT OBLIGATION (CONTINUED)**a) Defined benefit pension scheme (continued)****i) The WHSmith Pension Trust (continued)**

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

£m	2008	2007
At 1 September	657	608
Expected return on scheme assets	36	32
Actuarial gains and losses	110	1
Contributions from the sponsoring companies	10	39
Benefits paid	(20)	(23)
As at 31 August	793	657

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

£m	2008	2007
Cash	653	645
Inflation swaps	112	(29)
Equity call options	28	41
	793	657

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 2008 this was 5.10 per cent (2007: 5.57 per cent).

The mortality assumptions (in years) underlying the value of the accrued liabilities for both 2007 and 2008 are:

	Male	Female
Life expectancy at age 65		
Member currently aged 65	20.1	22.9
Member currently aged 45	21.4	24.1
Life expectancy at age 60		
Member currently aged 60	24.9	27.7
Member currently aged 45	25.9	28.7

The mortality assumptions are based on the standard PA92 medium cohort tables (as published by the Institute of Actuaries). The mortality rates underlying the table have been increased by 25 per cent to reflect the Trust's actual experience.

The five year history of experience adjustments is as follows:

£m	2008	2007	2006	2005	2004
Present value of defined benefit obligations	(662)	(657)	(674)	(651)	(612)
Fair value of scheme assets	793	657	608	598	473
Surplus / (deficit) in the scheme	131	-	(66)	(53)	(139)
Experience adjustments on scheme liabilities					
Amount (£m)	(14)	22	(7)	(75)	
Percentage of scheme liabilities (%)	2	(3)	1	11	
Experience adjustments on scheme assets					
Amount (£m)	110	1	(17)	48	
Percentage of scheme assets (%)	14	-	(3)	8	

ii) United News Shops Retirement Benefits Scheme

United News Shops Retirement Benefits Scheme is closed to new entrants. The scheme provides pension benefits for pensioners and deferred members.

A full actuarial valuation of the Scheme is carried out every three years with interim reviews in the intervening years. The latest full actuarial valuation of the Pension Trust was carried out at 5 April 2006 by independent actuaries.

The valuation of the defined benefit pension scheme used for the IAS 19 disclosures is based upon the most recent valuation and uses 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	2008	2007
Present value of the obligations	(4)	–
Fair value of plan assets	4	–
Retirement benefit obligation recognised in the balance sheet	–	–

b) Defined contribution pension schemes

The pension cost charged to income for the Group's defined contribution schemes amounted to £3m for the year ended 31 August 2008 (2007: £2m).

7. STAFF COSTS AND EMPLOYEES

a) Staff costs

The aggregate remuneration of employees was:

£m	2008	2007
Wages and salaries	173	158
Social security	12	10
Net pension cost	3	6
Employee share schemes	6	6
Total Group	194	180

b) Employee numbers

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

Number	2008	2007
High Street	13,564	13,348
Travel	4,293	2,840
Total Retailing	17,857	16,188
Support functions	34	39
Total Group	17,891	16,227

8. OPERATING LEASE COMMITMENTS

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

£m	2008	2007
Within one year	151	141
Within two to five years	463	434
In more than five years	286	308
	900	883

The Group leases various properties under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. In addition the Group leases various equipment and vehicles which have a total lease commitment of less than £1m (2007: less than £1m).

	2008			2007
	Annual net lease commitment £m	Future cumulative net lease commitment £m	Average lease term (years)	Annual net lease commitment £m
High Street Travel	89	639	7	87
	64	271	4	55
Total Retailing	153	910	6	142
Support functions	1	2	1	1
Property sublet to third parties	6	24	4	6
Gross rental commitment	160	936	6	149
Less – external rent receivable	(7)	(25)	4	(6)
– internal rent receivable	(2)	(12)	–	(2)
Total continuing operations	151	899	6	141
USA Travel Retail	1	4	4	1
Less – external rent receivable	(1)	(3)	4	(1)
Total discontinued operations	–	1	4	–
Total	151	900	6	141

- a) High Street Retail lease commitments include internal rent of £2m (2007: £2m) relating to those properties which are owned by the Group.
- b) External rent receivable relates to properties let by the Group to third parties. Of the total external rent receivable, £1m (2007: £1m) related to USA Travel Retail which sublet retail space in airports where it operated a master contract and £7m (2007: £6m) represents income on subletting other surplus Group property.
- c) Potential liabilities (not included above) that could crystallise under previous assignments of leases where the liability would revert to the Group if the lessee defaulted are estimated at £13m (2007: £14m) per year with a future cumulative rental commitment of approximately £64m (2007: £76m). See Note 28.
- d) For those leases that are turnover-related leases, the annual net lease commitment is calculated using the minimum lease liability; these relate to Travel stores.

9. FIXED CHARGES COVER

£m	2008	2007
Net finance (income) / charges	(2)	1
Net operating lease rentals	171	149
Total fixed charges	169	150
Profit before tax and exceptional items	76	66
Profit before tax, exceptional items and fixed charges	245	216
Fixed charges cover – times	1.4x	1.4x

10. SEGMENTAL ANALYSIS OF OPERATING ASSETS EMPLOYED

	Operating assets as at 31 August 2008 £m	Return on capital employed %	ROCE % after capitalised net operating leases including internal rent %	Operating assets as at 31 August 2007 £m	Return on capital employed %	ROCE % after capitalised net operating leases including internal rent %
Continuing operations:						
High Street	163	29%	14%	160	28%	13%
Travel	53	77%	25%	33	109%	24%
Total Retailing	216	41%	17%	193	41%	16%
Unallocated central net liabilities	(41)			(25)		
Operating assets employed continuing operations	175	42%	17%	168	40%	15%
Discontinued operations:						
USA Travel Retail	(1)			(1)		
Provisions for liabilities and charges	(4)			(4)		
Operating assets employed discontinued operations	(5)			(5)		
Total operating assets employed	170	44%	17%	163	41%	15%
Net (debt) / funds	(9)			64		
Net assets excluding pension obligation	161			227		
Net retirement obligation continuing operations	-			-		
Total net assets	161			227		

- a) Return on capital employed is calculated as the operating profit before exceptional items 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.

11. INVESTMENT INCOME

£m	2008	2007
Interest on bank deposits	4	4
Interest from prior period tax overpayments	1	1
	5	5

12. FINANCE COSTS

£m	2008	2007
Interest payable on bank loans and overdrafts	1	1
Net charge on pension schemes (Note 6)	-	2
Unwinding of discount on provisions	1	1
Interest on obligations under finance leases	1	1
Loss on cash flow hedges	-	1
	3	6

13. INCOME TAX EXPENSE

£m	2008	2007
Tax on profit before exceptional items	22	23
<i>Blended standard rate of UK corporation tax 29.17% (2007: 30%)</i>		
Adjustment in respect of prior year UK corporation tax	(8)	(8)
Total current tax charge before exceptional items	14	15
Deferred tax – current year	3	(2)
Tax on profit before exceptional items	17	13
Tax on exceptional items	–	3
Tax on profit after exceptional items	17	16
<i>Effective tax rate on continuing activities before exceptional items</i>	<i>23%</i>	<i>20%</i>

Reconciliation of the taxation charge

£m	2008	2007
Tax on profit before exceptional items at standard rate of UK corporation tax 29.17% (2007: 30%)	22	20
Tax effect of items that are not deductible or not taxable in determining taxable profit	2	1
Tax rate differential	1	–
Deferred tax charge in relation to retirement benefit obligation adjustments	–	3
Adjustment in respect of prior years	(8)	(8)
Tax charge after exceptional items	17	16

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

14. DIVIDENDS

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

£m	2008	2007
Dividends		
Interim of 4.6p per ordinary share (2007: 3.7p per ordinary share)	7	6
Final of 8.1p per ordinary share (2007: 6.2p per ordinary share)	14	11
Special interim dividend of 33p per ordinary share (2007: nil)	57	–
	78	17

The proposed dividend of 9.7p per share is not included as a liability in these financial statements and, subject to shareholder approval, will be paid on 5 February 2009 to shareholders on the register at the close of business on 9 January 2009.

15. EARNINGS PER SHARE

These are derived from continuing operations.

a) Earnings

£m	2008	2007
Underlying earnings attributable to shareholders (note i)	59	53
Exceptional items net of related taxation	–	7
Earnings attributable to shareholders	59	60

b) Basic earnings per share

Pence	2008	2007
Underlying earnings per share (note i)	36.4	30.3
Exceptional items net of related taxation	–	4.0
Earnings per share (note ii)	36.4	34.3

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

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

c) Diluted earnings per share

Pence	2008	2007
Underlying earnings per share	35.3	29.3
Exceptional items net of related taxation	-	3.8
Earnings per share	35.3	33.1

d) Weighted average share capital

Millions	2008	2007
Weighted average shares in issue for earnings per share	162	175
Add weighted average number of ordinary shares under option	5	6
Weighted average ordinary shares for diluted earnings per share	167	181

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

16. GOODWILL

	£m
Cost	
At 1 September 2007	15
Recognised on acquisition of businesses (Note 18)	17
At 31 August 2008	32
Accumulated impairment	
At 1 September 2007	-
Net book value at 31 August 2008	32
Cost	
At 1 September 2006 and at 31 August 2007	15
Accumulated impairment	
At 1 September 2006 and at 31 August 2007	-
Net book value at 31 August 2007	15

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

£m	2008	2007
High Street	11	10
Travel	21	5
	32	15

Cash generating units are comprised of the group of retail stores purchased on acquisitions.

In undertaking reviews for impairments, the recoverable amount of the cash generating units have been determined based on value in use calculations. These calculations are based on budgets prepared by management for a one year period, and projections over a further 15 years. The growth rates used are linked to RPI – a rate of between 2.25 per cent and 2.5 per cent. A discount rate of ten per cent has been applied to the cash flows.

17. OTHER INTANGIBLE ASSETS

Other intangible assets comprise capitalised software costs that are not deemed to be an integral part of the related hardware (which is classified within property, plant and equipment) and certain tenancy rights.

The amortisation period for capitalised software costs is over a maximum period of five years. Other intangible assets are either considered to have an indefinite life, therefore no amortisation has been charged, or are amortised over their useful economic life. These assets are reviewed annually for impairment.

	£m
Cost	
At 1 September 2007	38
Additions	4
Recognised on acquisition of businesses (Note 18)	6
At 31 August 2008	48
Accumulated amortisation	
At 1 September 2007	18
Amortisation charge	6
Impairment charge	1
At 31 August 2008	25
Net book value at 31 August 2008	23
Cost	
At 1 September 2006	32
Additions	6
At 31 August 2007	38
Accumulated amortisation	
At 1 September 2006	12
Amortisation charge	5
Impairment charge	1
At 31 August 2007	18
Net book value at 31 August 2007	20

18. ACQUISITIONS OF BUSINESSES**a) Acquisition of UNS Group Limited**

On 18 March 2008, the Group acquired 100 per cent of the issued share capital of UNS Group Limited for a cash consideration of £19m. UNS Group Limited is the parent company of a group of companies involved in the operation of convenience stores and coffee shops in hospitals. The transaction has been accounted for by the purchase accounting method.

£m	Provisional	
	Book value	Fair value
Net assets acquired		
Intangible assets	–	3
Property, plant and equipment	4	4
Inventories	1	1
Trade and other receivables	1	1
Net debt	–	–
Trade and other payables	(7)	(7)
	(1)	2
Goodwill arising on acquisition		17
Total consideration (satisfied by cash)		19

The goodwill arising on the acquisition of UNS Group Limited is attributable to the future growth potential of the business acquired, synergies and the associated workforce. In addition, intangible assets of £3m were identified in relation to tenancy rights.

UNS Group Limited contributed £18m to revenue between the acquisition date and the balance sheet date. The amount of profit before tax generated is not material in the context of these accounts. If the acquisition had been completed on the first day of the financial year, Group revenues for the period would have been £1,371m and Group profit before tax would have been £76m.

b) Other acquisitions

In addition, the Group acquired a number of leasehold properties, together with the associated workforce from Martin McColl and Alpha Retail UK Limited for £5m. The fair value of inventories acquired was £2m. In addition, intangible assets of £3m were identified in relation to tenancy rights.

Details of revenues generated have not been disclosed as the revenue generated is not material in the context of these financial statements. No pro forma information for the financial year has been included, as the acquired stores have been amalgamated within the existing store portfolio, rendering any disclosure impractical.

19. PROPERTY, PLANT AND EQUIPMENT

£m	Land & Buildings			Fixtures & fittings	Equipment & vehicles	Total
	Freehold properties	Long-term leasehold	Short-term leasehold			
Cost or valuation:						
At 1 September 2007	22	–	131	137	90	380
Additions	–	–	16	12	7	35
Acquisitions of businesses (Note 18)	–	–	–	3	1	4
Disposals	(3)	–	(6)	(16)	(26)	(51)
At 31 August 2008	19	–	141	136	72	368
Accumulated depreciation:						
At 1 September 2007	8	–	68	79	49	204
Depreciation charge	1	–	9	13	10	33
Impairment charge	–	–	–	2	–	2
Disposals	(3)	–	(7)	(15)	(23)	(48)
At 31 August 2008	6	–	70	79	36	191
Net book value at 31 August 2008	13	–	71	57	36	177
Cost or valuation:						
At 1 September 2006	22	1	135	130	83	371
Additions	1	–	8	8	10	27
Disposals	(1)	(1)	(12)	(1)	(3)	(18)
At 31 August 2007	22	–	131	137	90	380
Accumulated depreciation:						
At 1 September 2006	8	1	72	66	40	187
Depreciation charge	1	–	8	13	11	33
Impairment charge	–	–	–	1	1	2
Disposals	(1)	(1)	(12)	(1)	(3)	(18)
At 31 August 2007	8	–	68	79	49	204
Net book value at 31 August 2007	14	–	63	58	41	176

The net book value of finance leases contained within these balances is £8m at 31 August 2008 (2007: £10m).

20. AVAILABLE FOR SALE INVESTMENTS

£m	2008	2007
Fair value	–	4

The investments included above represented the Group's holding of shares in Smiths News PLC. These shares were held to satisfy the Group's 2004 Management Incentive Plan. They had no fixed maturity or coupon rate. The fair values of the shares were based on quoted market prices with temporary gains or losses recognised within equity. Available for sale investments were held within current assets as at 31 August 2007.

21. TRADE AND OTHER RECEIVABLES

£m	2008	2007
Current debtors		
Trade debtors	27	21
Other debtors	19	18
Prepayments and accrued income	24	20
	70	59
Non-current debtors		
Prepayments and accrued income	4	5
Total trade and other receivables	74	64

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

£m	2008	2007
Trade and other receivables gross	48	41
Of which:		
Amounts neither impaired nor past due on the reporting date	38	32
Amounts past due but not impaired		
Less than one month old	4	5
Between one and three months old	2	1
Between three and six months old	4	3
Between six months old and one year old	–	–
Allowance for doubtful debts	(2)	(2)
Trade and other receivables net carrying amount	46	39

An allowance has been made for estimated irrecoverable amounts from the sale of goods at 31 August 2008 of £2m (2007: £2m). This allowance reflects the application of the Group's provisioning policy in respect of bad and doubtful debts and is based upon the difference between the receivable value and the estimated net collectible amount. The Group establishes its provision for bad and doubtful debts by reference to past default experience. No collateral is held for amounts past due but not impaired.

No trade and other receivables that would have been past due or impaired were renegotiated during the year. No interest is charged on the receivables balance.

The other classes within trade and other receivables do not include impaired assets. The Group does not hold collateral over these balances.

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

22. TRADE AND OTHER PAYABLES – CURRENT

£m	2008	2007
Trade payables	89	87
Other tax and social security	23	20
Other creditors	66	57
Accruals and deferred income	61	53
	239	217

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 45 days (2007: 45 days). The directors consider that the carrying amount of trade and other payables approximates to their fair value.

23. OTHER NON-CURRENT LIABILITIES

£m	2008	2007
Other creditors	8	7

24. OBLIGATIONS UNDER FINANCE LEASES

£m	2008		2007	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Amount payable under finance leases:				
Within one year	4	4	4	3
In the second to fifth years inclusive	2	2	7	6
After five years	–	–	–	–
Total	6	6	11	9
Less: future finance charges	–	–	(2)	–
Present value of lease obligations	6	6	9	9
Less: amount due for settlement within 12 months (shown under current liabilities)	(4)	(4)	(3)	(3)
Amount due for settlement after 12 months	2	2	6	6

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

All lease obligations are denominated in sterling.

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

25. PROVISIONS

£m	Property provision	Disposal provision	Total
Gross provision:			
At 1 September 2007	7	4	11
Utilised in year	(3)	–	(3)
At 31 August 2008	4	4	8
Discount:			
At 1 September 2007	(1)	–	(1)
Unwinding of discount utilisation	1	–	1
At 31 August 2008	–	–	–
Net book value at 31 August 2008	4	4	8

£m	Property provision	Disposal provision	Total
Gross provision:			
At 1 September 2006	9	5	14
Utilised in year	(2)	(1)	(3)
At 31 August 2007	7	4	11
Discount:			
At 1 September 2006	(2)	–	(2)
Unwinding of discount utilisation	1	–	1
At 31 August 2007	(1)	–	(1)
Net book value at 31 August 2007	6	4	10

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

£m	2008	2007
Included in current liabilities	4	6
Included in non-current liabilities	4	4
	8	10

The non-trading property provision is the estimated future cost of the Group's onerous leases based on known and estimated rental subleases. The costs include provision for required dilapidation costs and any anticipated future rental shortfalls. This provision has been discounted at ten per cent, and this discount will be unwound over the life of the leases.

The disposal provisions arose from commitments in respect of the disposal of the USA Travel business. The provisions will be predominantly utilised over the next few years.

26. DEFERRED TAX

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period.

£m	Accelerated tax depreciation	Property provision	Lease incentives	Share-based payments	Retirement benefit obligations	Total
At 1 September 2007	(12)	2	2	7	4	3
Charged to income	2	(1)	–	(3)	(1)	(3)
Charged to equity	–	–	–	1	–	1
At 31 August 2008	(10)	1	2	5	3	1
At 1 September 2006	(13)	2	2	3	22	16
Charged to income	–	–	–	4	(5)	(1)
Charged to equity	–	–	–	–	(13)	(13)
Restatement of deferred tax closing balances to 28%	1	–	–	–	–	1
At 31 August 2007	(12)	2	2	7	4	3

Certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances, after offset, for financial reporting purposes.

£m	2008	2007
Deferred tax liabilities (non-current liabilities)	(10)	(12)
Deferred tax assets	11	15
	1	3

27. ANALYSIS OF NET FUNDS / (DEBT)

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

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

£m	2006	Cash flow	Non-cash	2007
Cash and cash equivalents	66	16	–	82
Debt				
– Sterling floating rate	(13)	4	–	(9)
Obligations under finance leases	(11)	3	(1)	(9)
Net funds	42	23	(1)	64

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

At 31 August 2008, floating rate debt comprised the Group's utilisation of £25m (2007: £nil) of its five-year committed revolving credit facility of £90m. The revolving credit facility is due to mature on 26 June 2011. The utilisation is interest bearing at LIBOR plus 60bps. During the period in accordance with the terms of the loan notes the Group repaid the remaining unsecured loan notes, bearing interest at a rate of 100 basis points below six month LIBOR.

28. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

£m	2008	2007
Bank and other loans guaranteed	4	5

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

Other potential liabilities that could crystallise are in respect of previous assignments of leases where the liability could revert to the Group if the lessee defaulted. Pursuant to the terms of the Demerger Agreement with Smiths News PLC, any such contingent liability which becomes an actual liability, will be apportioned between the Group and Smiths News PLC in the ratio 65:35 (provided that the actual liability of Smiths News PLC in any 12 month period does not exceed £5m). The Group's 65 per cent share of these leases has an estimated future rental commitment at 31 August 2008 of £64m (2007: £76m).

Contracts placed for future capital expenditure approved by the directors but not provided for in this combined financial information amount to £nil (2007: £nil).

29. NET CASH INFLOW FROM OPERATING ACTIVITIES

£m	2008	2007
Operating profit from continuing operations	74	77
Operating exceptional items	-	(10)
Pension funding	(10)	(35)
Depreciation of property, plant and equipment	33	33
Profit on sale of property, plant and equipment	-	(2)
Impairment of property, plant and equipment	2	2
Amortisation of intangible assets	6	5
Impairment of intangible assets	1	1
Share-based payments	6	6
(Increase) / decrease in inventories	(3)	2
Increase in receivables	(10)	(6)
Increase in payables	15	13
Income taxes (paid) / received	(7)	5
Cash spend against provisions	(3)	(2)
Net cash inflow from operating activities before exceptional items	104	89
Cash outflow relating to exceptional operating items	-	(6)
Net cash from operating activities	104	83

30. FINANCIAL INSTRUMENTS**Categories of financial instruments**

£m	Carrying Value	
	2008	2007
Financial assets		
Derivative instruments in designated hedge accounting relationships	2	-
Loans and receivables (including cash and cash equivalents) ¹	96	146
Available for sale financial assets	-	4
Financial liabilities		
Derivative instruments in designated hedge accounting relationships	-	(1)
Finance lease obligations	(6)	(9)
Amortised cost ²	(272)	(233)

¹ Included within loans and receivables are trade and other receivables and cash and cash equivalents

² Included within amortised cost are trade and other payables, borrowings and other non-current liabilities

Comparison of carrying values and fair values

There were no material differences between the carrying value of non-derivative financial assets and financial liabilities and their fair values as at the balance sheet date.

Risk management

The Group's Treasury function seeks to reduce exposures to interest rate, foreign exchange and other financial risks, to ensure liquidity is available to meet the foreseeable needs and to invest cash assets safely and profitably. The Group does not engage in speculative trading in financial instruments and transacts only in relation to underlying business requirements. The Group's treasury policies and procedures are periodically reviewed and approved by the Audit Committee and are subject to regular Group Internal Audit review.

Capital risk

The Group's objectives when managing capital (defined as net debt / funds (Note 27) plus equity) are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders, while optimising return to shareholders through an appropriate balance of debt and equity funding. The Group manages its capital structure and makes adjustments to it, in light of changes to economic conditions and the strategic objectives of the Group.

Liquidity risk

The Group manages its exposure to liquidity risk by reviewing the cash resources required to meet its business objectives through both short and long-term cash flow forecasts. The Group has committed and uncommitted facilities with a number of financial institutions which are available to be drawn for general corporate purposes including working capital.

Treasury has a policy of pooling group cash flows in order to maximise the return on surplus cash and also to utilise cash within the group to reduce the costs of external short-term funding.

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

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

2007 (£m)	Due within 1 year	Due between 1 and 2 years	Due between 2 and 5 years	Due over 5 years	Total
Non-derivative financial liabilities					
Bank loans and overdrafts	9	–	–	–	9
Trade and other payables	235	–	1	–	236
Finance leases	4	7	–	–	11
Total cash flows	248	7	1	–	256

Credit risk

Credit risk is the risk that a counterparty may default on their obligation to the Group in relation to lending, hedging, settlement and other financial activities.

The Group's principal financial assets are trade and other receivables and bank balances and cash.

The Group's credit risk is primarily attributable to its trade and other receivables. The amounts included in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of cash flows. The Group has a very low retail credit risk due to the transactions being principally of a high volume, low value and short maturity. The Group has no significant concentration of credit risk, with the exposure spread over a large number of counterparties and customers.

30. FINANCIAL INSTRUMENTS (CONTINUED)**Credit risk (continued)**

The credit risk on liquid funds and derivative financial instruments is considered to be low, as the Board approved Group Treasury Policy limits the value that can be placed with each approved counterparty to minimise the risk of loss. These limits are based on a combination of short-term credit ratings of P-1 / A-1 and long-term ratings of A1 / A+ or better.

The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk. The Group does not hold collateral over any of these financial assets.

Interest rate risk

The Group is exposed to cash flow interest rate risk on floating rate bank loans and overdrafts.

At 31 August 2008, the Group had drawn down £25m (2007: £nil) from its committed revolving credit facility. The Group does not see this draw down as long-term in nature and has therefore not entered into interest rate derivatives to mitigate this risk.

Foreign currency risk

Foreign exchange rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in foreign exchange rates. The Group's foreign currency exposures are principally to the US Dollar and Euro.

The Group uses forward foreign exchange contracts to hedge significant future transactions and cash flows denominated in currencies other than pounds sterling. The hedging instruments have been used to hedge purchases in US dollars and to minimise foreign exchange risk in movements of the USD / GBP exchange rates. These are designated as cash flow hedges. At 31 August 2008, the Group had no material unhedged currency exposures.

The Group's Euro exposure is principally operational and arises through the ownership of a retail store in France. The Group does not use derivatives to hedge balance sheet and profit and loss translation exposure.

The fair value of cash flows hedges recognised on the balance sheet within derivative assets / liabilities is shown below:

£m	2008	2007
Fair value of derivative assets / (liabilities)	2	(1)

At 31 August 2008, the total notional amount of outstanding forward foreign exchange contracts to which the Group has committed is US\$52m (2007: US\$69m). These instruments will be used to hedge cash flows occurring within two years of the balance sheet date.

Losses totalling £1m (2007: £2m) have been transferred to both the income statement and inventories in respect of contracts that matured during the year ended 31 August 2008.

At 31 August 2008, the fair value gain on the Group's currency derivatives that are designated and effective as cash flow hedges amounts to £3m (2007: £1m).

Sensitivity analysis as at 31 August 2008

Financial instruments affected by market risks include borrowings, deposits and derivative financial instruments. The following analysis, required by IFRS 7 'Financial Instruments: Disclosures', is intended to illustrate the sensitivity to changes in market variables, being UK interest rates, and USD / GBP and GBP / Euro exchange rates.

The following assumptions were made in calculating the sensitivity analysis:

- Exchange rate fluctuations on currency derivatives that form part of an effective cash flow hedge relationship affect the hedging reserve in equity and the fair value of the hedging derivatives.
- Year end exchange rates applied in the analysis are USD / GBP 1.821 / 1 (2007: 2.014 / 1) and EUR / GBP 1.241 / 1 (2007: 1.476 / 1).
- Group debt and hedging activities remain constant, reflecting the positions at 31 August 2007 and 31 August 2008 respectively. As a consequence, the analysis relates to the position at those dates and is not necessarily representative of the years then ended.

The above assumptions are made when illustrating the effect on the Group's income statement and equity given reasonable movements in foreign exchange and interest rates before the effect of tax. The Group considers a reasonable interest rate movement in GBP LIBOR / Base Rate to be one per cent, based on interest rate history. Similarly, sensitivity to movements in USD / GBP and EUR / GBP exchange rates of ten per cent are shown, reflecting changes of reasonable proportion in the context of movement in those currency pairs over the last year.

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

£m	2008		2007	
	Income gains / (loss)	Equity gains / (loss)	Income gains / (loss)	Equity gains / (loss)
GBP LIBOR / Base rate interest rates 1% increase	-	-	1	-
USD / GBP exchange rates 10% increase	-	(2)	-	(3)
GBP / Euro exchange rates 10% increase	-	-	-	-
GBP LIBOR / Base rate interest rates 1% decrease	-	-	(1)	-
USD / GBP exchange rates 10% decrease	-	3	-	4
GBP / Euro exchange rates 10% decrease	-	-	-	-

31. CALLED UP SHARE CAPITAL

a) Authorised

	2008		2007	
	Number of shares (millions)	Nominal value £m	Number of shares (millions)	Nominal value £m
Equity:				
Ordinary shares of 20p	-	-	300	60
Ordinary shares of 22 ⁶ / ₄₇ p	272	60	-	-
Total	272	60	300	60

b) Allotted and fully paid

	2008		2007	
	Number of shares (millions)	Nominal value £m	Number of shares (millions)	Nominal value £m
Equity:				
Ordinary shares of 20p	-	-	183	37
Ordinary shares of 22 ⁶ / ₄₇ p	157	35	-	-
Total	157	35	183	37

On 7 September 2006, the Company reduced its authorised share capital through the reduction of the nominal value of each ordinary share from £1.95 each to £0.20 each, creating £320m of distributable reserves.

On 20 February 2008, shareholders approved at an Extraordinary General Meeting a share capital consolidation on the basis of 67 new ordinary shares for every 74 existing ordinary shares. This provided for all of the authorised ordinary shares of 20p (whether issued or unissued) to be consolidated into new ordinary shares of 22⁶/₄₇p, which became effective on 22 February 2008.

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

The holders of ordinary shares are entitled to receive dividends as declared from time-to-time and are entitled to one vote per share at the meetings of the Company.

32. SHARE-BASED PAYMENTS

Summary of movements in awards and options

Number of shares	Sharesave Schemes	Executive Share Option Schemes	2008 MIP	2004 MIP	LTIps	Total	Weighted average exercise price (pence)
Outstanding at 1 September 2007	887,239	5,207,918	-	2,550,903	2,417,306	11,063,366	155.61
Options and awards granted	403,412	1,241,407	4,533,680	-	257,520	6,436,019	94.84
Options and awards exercised	(2,404)	(1,589,093)	-	(1,826,006)	(456,347)	(3,873,850)	103.73
Options and awards lapsed	(101,013)	(75,089)	(235,501)	-	(159,457)	(571,060)	96.81
Outstanding at 31 August 2008	1,187,234	4,785,143	4,298,179	724,897	2,059,022	13,054,475	143.47
Exercisable at 31 August 2008	-	726,898	-	36,810	-	763,708	247.75
Outstanding at 1 September 2006	281,655	8,185,035	-	2,640,400	1,489,841	12,596,931	176.35
Options and awards granted	930,487	1,403,506	-	-	927,465	3,261,458	230.91
Options and awards exercised	(20,831)	(3,623,677)	-	-	-	(3,644,508)	263.71
Options and awards lapsed	(304,072)	(756,946)	-	(89,497)	-	(1,150,515)	253.27
Outstanding at 31 August 2007	887,239	5,207,918	-	2,550,903	2,417,306	11,063,366	155.61
Exercisable at 31 August 2007	-	427,729	-	-	-	427,729	282.18

Detail of movements in options and awards

2008 Management Investment Plan (2008 MIP)

Under the terms of the 2008 Management Investment Plan, executive directors and key senior executives have invested their own money to buy ordinary shares in WH Smith PLC and have been granted matching awards (in the form of nil cost options in WH Smith PLC) to acquire further ordinary shares in proportion to the amount they had invested. These awards will only vest and become exercisable if underlying performance targets are met.

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

Date of grant	2008	2007	Exercise price (pence)	Exercise period
22 November 2007	4,278,724	-	Nil	Nov 2010 – Nov 2012
29 February 2008	19,455	-	Nil	Nov 2010 – Nov 2012
	4,298,179	-		

2004 Management Investment Plan (2004 MIP)

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

Outstanding awards granted under the 2004 Management Investment Plan are as follows:

Date of grant	Number of WH Smith PLC shares		Exercise price (pence)	Exercise period
	2008	2007		
3 November 2004	589,923	2,128,327	Nil	01.02.08 – 31.01.10
26 April 2005	134,974	412,179	Nil	01.02.08 – 31.01.10
3 June 2005	-	10,397	Nil	01.02.08 – 31.01.10
	724,897	2,550,903		

Date of grant	Number of Smiths News PLC shares		Exercise price (pence)	Exercise period
	2008	2007		
3 November 2004	17,756	2,128,327	Nil	01.02.08 – 31.01.10
26 April 2005	–	412,179	Nil	01.02.08 – 31.01.10
3 June 2005	–	10,397	Nil	01.02.08 – 31.01.10
	17,756	2,550,903		

As the performance conditions have been met, 75 per cent of an award was exercisable following the vesting date (31 January 2008) and 25 per cent will be capable of exercise on 1 February 2009. Awards not exercised will lapse on 1 February 2010.

LTIPs

Under the terms of the current LTIP, approved by shareholders in 2006, executive directors and key senior executives may be granted conditional awards to acquire ordinary shares in the Company (in the form of nil cost options) which will only vest and become exercisable to the extent that the related performance targets are met.

As a result of the demerger, all outstanding awards under the 2004 LTIP were exchanged for new awards over the Company's shares. Further details are set out in the Remuneration Report.

Outstanding awards granted under the LTIPs are as follows:

Date of grant	Number of shares		Exercise price (pence)	Exercise period
	2008	2007		
3 November 2004	–	501,479	Nil	Oct 2007 – 03.11.14
2 November 2005	666,249	682,389	Nil	Oct 2008 – 02.11.15
9 February 2006	299,969	305,973	Nil	Feb 2009 – 09.02.16
19 October 2006	832,468	872,465	Nil	Oct 2009 – 19.10.16
26 April 2007	55,000	55,000	Nil	Apr 2010 – 26.04.17
17 October 2007	205,336	–	Nil	Oct 2010 – 17.10.17
	2,059,022	2,417,306		

Awards will first become exercisable on the vesting date, which is the date (as soon as practicable after the announcement of WH Smith PLC's results for the final year of the performance period) that participants receive notification of the number of award shares that have vested.

Sharesave Scheme

Under the terms of the current Sharesave Scheme, approved by shareholders in 2006, the Board grants options to purchase ordinary shares in the Company to employees with at least one year's service who enter into an HM Revenue & Customs approved Save-As-You-Earn (SAYE) savings contract for a term of three or five years. Options are granted at a 20 per cent discount to the market price of the shares on the day preceding the date of offer and are normally exercisable for a period of six months after completion of the SAYE contract.

Outstanding options granted under the Sharesave Scheme at 31 August 2008 are as follows:

Date of grant	Number of shares		Exercise price (pence)	Exercise period
	2008	2007		
29 November 2006 (3 year)	597,950	676,308	295.20	01.02.10 – 31.07.10
29 November 2006 (5 year)	188,973	210,931	295.20	01.02.12 – 31.07.12
4 June 2008 (3 year)	284,150	–	335.60	01.08.11 – 31.01.12
4 June 2008 (5 year)	116,161	–	335.60	01.08.13 – 31.01.14
	1,187,234	887,239		

32. SHARE-BASED PAYMENTS (CONTINUED)**Executive Share Option Schemes**

Under the terms of the current Executive Share Option Scheme, approved by shareholders in 2006, the Board may grant options to executives up to an annual limit of 200 per cent of basic annual salary. The exercise of options is conditional on the achievement of a performance target, which is determined by the Board at the time of grant. Further details are set out in the Remuneration Report.

Outstanding options granted under the Executive Share Option Schemes as at 31 August 2008 are as follows:

Date of grant	Number of shares		Exercise price (pence)	Exercise period
	2008	2007		
25 February 1999	7,766	7,766	386.00	25.02.02 – 24.02.09
31 October 2000	26,628	51,947	286.00	31.10.03 – 30.10.10
1 May 2001	10,899	10,899	357.00	01.05.04 – 30.04.11
1 November 2001	77,677	118,437	318.00	01.11.04 – 31.10.11
5 November 2002	45,966	124,324	263.00	05.11.05 – 04.11.12
20 November 2003	31,499	114,356	250.00	20.11.06 – 19.11.13
3 November 2004	526,464	1,671,300	247.00	03.11.07 – 02.11.14
26 April 2005	–	216,963	262.00	26.04.08 – 25.04.15
2 November 2005	1,574,291	1,592,623	268.00	02.11.08 – 01.11.15
20 April 2006	25,960	25,960	321.00	20.04.09 – 19.04.16
19 October 2006	1,233,401	1,262,587	340.00	19.10.09 – 18.10.16
26 April 2007	10,756	10,756	453.25	26.04.10 – 25.04.17
17 October 2007	1,192,984	–	381.00	17.10.10 – 16.10.17
22 April 2008	20,852	–	387.25	22.04.11 – 21.04.18
	4,785,143	5,207,918		

Fair value information

£m	2008	2007
Weighted average share price at date of exercise of share options exercised during period – pence	386.85	397.01
Weighted average remaining contractual life at end of period – years	6	6

Share options and awards granted

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

£m	2008	2007
	14	5

The share options granted under the Executive Share Option Scheme and the Sharesave Scheme during each period have been valued using a Black-Scholes model. The inputs to the Black-Scholes model are as follows:

	2008	2007
Share price – pence	383 – 400	350 – 367
Exercise price – pence	335.6 – 387.3	295.2 – 340.0
Expected volatility – per cent	29.80 – 34.39	34.17 – 35.23
Expected life – years	3.5 – 5.5	3.5 – 5.5
Risk free rate – per cent	4.48 – 5.04	4.69 – 4.82
Dividend yield – per cent	2.9 – 3.1	2.5 – 2.7
Weighted average fair value of options – pence	116.29	116.36

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

The fair values of the MIP and LTIP awards granted were measured using a Monte Carlo simulation model. The input range into the Monte Carlo models was as follows:

	2008	2007
Share price – pence	316.75 – 390.75	350.00
Exercise price – pence	Nil	Nil
Expected volatility – per cent	27.2	27.0
Expected life – years	3.0	3.0
Risk free rate – per cent	4.3 – 5.0	4.9
Dividend yield – per cent	2.5	2.7
Weighted average fair value of options – pence	244.44	250.50

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

33. RELATED PARTY TRANSACTIONS

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

Remuneration of key management personnel

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

£'000	2008	2007
Short-term employee benefits	2,543	2,599
Post employment benefits	215	205
Share-based payments	2,278	1,349
	5,036	4,153

Directors' transactions

There are no other transactions with directors.

34. PRINCIPAL COMPANIES

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

Name	Country of incorporation / registration
WH Smith PLC	England and Wales
WHSmith Retail Holdings Limited	England and Wales
WHSmith High Street Holdings Limited	England and Wales
WHSmith Travel Holdings Limited (formerly WHSmith Retail Limited)	England and Wales
WHSmith High Street Limited	England and Wales
WHSmith Travel Limited	England and Wales
UNS Hospitals Limited	England and Wales
WHSmith France S.A.S	France

We have audited the individual Company financial statements of WH Smith PLC for the year ended 31 August 2008 which comprise the Company balance sheet and the related notes 1 to 6. These individual Company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of WH Smith PLC for the year ended 31 August 2008 and on the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the individual Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the individual Company financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the individual Company financial statements give a true and fair view and whether the individual Company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the directors' report is consistent with the individual Company financial statements. In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the annual report as described in the contents section and consider whether it is consistent with the audited individual Company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the individual Company financial statements. Our responsibilities do not extend to any further information outside the annual report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the individual Company financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the individual Company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the individual Company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the individual Company financial statements.

Opinion

In our opinion:

- the individual Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 August 2008;
- the individual Company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

London

9 October 2008

COMPANY BALANCE SHEET**AS AT 31 AUGUST 2008**

£m	Note	2008	2007
Fixed assets			
Investments	3	357	357
Total fixed assets		357	357
Current assets		-	-
Current liabilities			
Creditors – amounts due within one year	4	(128)	(17)
Net current liabilities		(128)	(17)
Total net assets		229	340
Capital and reserves			
Called up share capital	5	35	37
Capital redemption reserve	6	2	-
Profit and loss account	6	192	303
Total equity		229	340

Approved by the Board of Directors on 9 October 2008.

Kate Swann
Group Chief Executive

Alan Stewart CA (SA)
Group Finance Director

1. ACCOUNTING POLICIES

a) Basis of preparation

The financial statements are prepared in compliance with the Companies Act 1985 and in accordance with applicable United Kingdom law and accounting standards. The financial statements are prepared under the historical cost convention. The accounting policies have been applied consistently in the current and prior year.

b) Investment in subsidiary undertakings

Investment in equity and long-term loans in subsidiary undertakings are individually valued at historical cost less provision for impairment in value.

c) Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

2. PROFIT FOR THE YEAR

The Company has not presented its own profit and loss account as permitted by section 230 of the Companies Act 1985.

The profit for the year attributable to shareholders, which is stated on an historical cost basis, was £nil (2007: £nil). There were no other recognised gains or losses.

3. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

The Company acquired the shares of WHSmith Retail Holdings Limited at a fair value of £357m on 31 August 2006.

4. CREDITORS – AMOUNTS DUE WITHIN ONE YEAR

£m	2008	2007
Amounts owed to subsidiary undertakings	128	17
	128	17

5. CALLED UP SHARE CAPITAL

a) Authorised

	2008		2007	
	Number of shares (millions)	Nominal value £m	Number of shares (millions)	Nominal value £m
Equity:				
Ordinary shares of 20p	–	–	300	60
Ordinary shares of 22 ⁶ / ₆₇ p	272	60	–	–
Total	272	60	300	60

b) Allotted and fully paid

	2008		2007	
	Number of shares (millions)	Nominal value £m	Number of shares (millions)	Nominal value £m
Equity:				
Ordinary shares of 20p	–	–	183	37
Ordinary shares of 22 ⁶ / ₆₇ p	157	35	–	–
Total	157	35	183	37

On 7 September 2006, the Company reduced its authorised share capital through the reduction of the nominal value of each ordinary share from £1.95 each to £0.20 each, creating £320m of distributable reserves.

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

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

The holders of ordinary shares are entitled to receive dividends as declared from time-to-time and are entitled to one vote per share at the meetings of the Company.

6. RESERVES

£m	Share capital	Capital redemption reserve	Profit and loss account	Total
Balance at 1 September 2007	37	–	303	340
Purchase of own shares for cancellation	(2)	2	(33)	(33)
Equity dividends paid during the period	–	–	(78)	(78)
Balance at 31 August 2008	35	2	192	229

NUMBER OF STORES

	1 September 2007	Opened	Acquired	Closed	31 August 2008
High Street	544	9	7	(3)	557
Travel	135	10	73	(3)	215
Total	679	19	80	(6)	772

A Travel store may consist of multiple units within one location. On an individual unit basis, Travel stores and the motorway stores (operated under franchise and not included in the store numbers above) can be analysed as follows:

Number of Travel units

	1 September 2007	Opened	Acquired	Closed	31 August 2008
Travel	223	28	95	(6)	340
Motorway franchise units	86	15	-	-	101
Caffè Nuovo	-	-	8	-	8
Total	309	43	103	(6)	449

RETAIL SELLING SQUARE FEET (000's)

	1 September 2007	Opened	Acquired	Closed	Redeveloped	31 August 2008
High Street	2,997	24	14	(11)	(19)	3,005
Travel	239	40	92	(7)	-	364
Total	3,236	64	106	(18)	(19)	3,369

Travel Retail selling square feet does not include motorway franchise units.

GROUP INCOME STATEMENT

£m	31 August 2008	31 August 2007	31 August 2006	31 August 2005	31 August 2004
Continuing operations					
Revenue	1,352	1,299	1,340	1,423	1,453
Group operating profit before exceptional items	74	67	60	47	20
Exceptional operating items	-	10	(7)	-	(92)
Group operating profit / (loss)	74	77	53	47	(72)
Net finance income / (charges)	2	(1)	(9)	(8)	(3)
Profit / (loss) before tax	76	76	44	39	(75)
Income tax expense	(17)	(16)	(12)	(9)	7
Profit / (loss) after tax from continuing operations	59	60	32	30	(68)
Loss from discontinued operations	-	-	-	(8)	(58)
Profit / (loss) for the period	59	60	32	22	(126)
Underlying earnings per share					
- Basic - continuing operations	36.4p	30.3p	23.8p	16.9p	9.8p
- Basic	36.4p	30.3p	23.8p	16.9p	14.8p
- Diluted	35.3p	29.3p	23.3p	16.8p	14.8p
Earnings per share					
Basic - continuing operations	36.4p	34.3p	18.6p	16.9p	(27.9)p
Basic	36.4p	34.3p	18.6p	12.4p	(51.6)p
Diluted	35.3p	33.1p	18.2p	12.3p	(51.6)p
Tax rate* - continuing operations	23%	20%	20%	23%	25%

* before exceptional items

Note: The 2004 figures are sourced from the WH Smith PLC circular dated 7 July 2006.

SEGMENTAL ANALYSIS OF GROUP REVENUE

£m	31 August 2008	31 August 2007	31 August 2006	31 August 2005	31 August 2004
High Street	939	961	1,021	1,112	1,152
Travel	413	338	319	311	301
Group revenue	1,352	1,299	1,340	1,423	1,453

SEGMENTAL ANALYSIS OF GROUP OPERATING PROFIT / (LOSS)

£m	31 August 2008	31 August 2007	31 August 2006	31 August 2005	31 August 2004
Continuing operations:					
High Street	47	44	42	37	14
Travel	41	36	31	25	20
Trading profit	88	80	73	62	34
Unallocated costs	(14)	(13)	(13)	(15)	(14)
Group operating profit before exceptional items	74	67	60	47	20
Exceptional items	-	10	(7)	-	(92)
Group operating profit / (loss)	74	77	53	47	(72)

GROUP BALANCE SHEET

£m	31 August 2008	31 August 2007	31 August 2006	31 August 2005	31 August 2004
Non-current assets					
Goodwill and other intangible assets	55	35	35	29	32
Property, plant and equipment	177	176	184	197	194
Deferred tax assets	11	15	29	38	48
Trade and other receivables	4	5	-	16	25
Total non-current assets	247	231	248	280	299
Current assets	241	286	278	262	285
Assets in disposal groups held for sale	-	-	-	-	247
Total assets	488	517	526	542	831
Current liabilities	(303)	(261)	(255)	(296)	(286)
Non-current liabilities					
Retirement benefit obligation	-	-	(66)	(60)	(146)
Other non-current liabilities	(24)	(29)	(37)	(81)	(42)
Liabilities in disposal groups held for sale	-	-	-	-	(37)
Total liabilities	(327)	(290)	(358)	(437)	(511)
Total net assets	161	227	168	105	320

Note: The 2004 figures are sourced from the WH Smith PLC circular dated 7 July 2006.

GROUP CASH FLOW STATEMENT

£m	12 months to				
	31 August 2008	31 August 2007	31 August 2006	31 August 2005	31 August 2004
Cash flow from operating activities					
Generated from operating activities	111	78	84	(25)	18
Taxation received / (paid)	(7)	5	(2)	2	(5)
Cash flow from operating activities	104	83	82	(23)	13
Investing activities					
Interest received	4	5	2	4	1
Acquisitions and disposals of businesses	(24)	(3)	8	212	31
Disposal of property, plant and equipment	3	2	9	2	5
Capital expenditure	(39)	(32)	(29)	(30)	(45)
Net cash from investing activities	(56)	(28)	(10)	188	(8)
Financing activities					
Interest paid	(1)	(2)	(7)	(6)	(4)
Dividend paid	(78)	(17)	(15)	(11)	(16)
Non-equity dividend paid	-	-	-	(143)	-
(Purchase) / issue of shares for employee share schemes	(9)	(12)	4	(12)	-
Repurchase of own shares	(33)	-	(3)	(62)	-
Increase / (decrease) in debt	13	(7)	(80)	58	(6)
Derivative cash movements	-	(1)	(1)	-	-
Other financing	-	-	57	(1)	(10)
Net cash used in financing activities	(108)	(39)	(45)	(177)	(36)
Net (decrease) / increase in cash and cash equivalents – continuing operations	(60)	19	19	(2)	(58)
Net (decrease) / increase in cash and cash equivalents – discontinued operations	-	(3)	8	(10)	27
Net (decrease) / increase in cash and cash equivalents	(60)	16	27	(12)	(31)

Note: The 2004 figures are sourced from the WH Smith PLC circular dated 7 July 2006.

ANALYSIS OF NET FUNDS MOVEMENT

£m	12 months to				
	31 August 2008	31 August 2007	31 August 2006	31 August 2005	31 August 2004
Operating profit before exceptional items	74	67	60	47	41
Share-based payments	6	6	6	4	1
Profit on disposal of property, plant and equipment	-	(2)	(5)	-	(2)
Depreciation, amortisation and other amounts written off fixed assets	42	41	37	41	43
Movement in working capital	2	9	9	(8)	(30)
Net interest receivable / (payable) ¹	2	2	(5)	(2)	(3)
Capital expenditure	(39)	(32)	(29)	(30)	(45)
Tax paid (before receipt of tax refund)	(21)	(8)	(2)	(2)	(5)
Provisions	(3)	(2)	(3)	(6)	(5)
Free cash flow (before dividends and investment activity)	63	81	68	44	(5)
Dividends	(78)	(17)	(15)	(11)	(16)
Non-equity dividend paid	-	-	-	(138)	-
Pension funding	(10)	(35)	(12)	(90)	(17)
Premium on issue of shares	-	-	4	2	-
Sale and leaseback and disposal of fixed asset proceeds	3	2	9	2	5
Net disposals proceeds of subsidiaries	-	(3)	8	212	42
Tax refund and associated interest received	15	14	-	-	-
Acquisitions	(24)	-	-	-	-
(Purchase) / issue of shares for employee share schemes	(9)	(12)	(10)	(12)	-
Repurchase of own shares	(33)	-	-	(62)	-
Corporate advisory costs	-	-	-	(9)	-
Cash outflow relating to exceptional operating items	-	(6)	(8)	-	(13)
(Cash) in subsidiaries disposed / acquired	-	-	-	-	(11)
Bank fees and derivative cash movements	-	(1)	(1)	(2)	-
Net finance lease movements	-	(1)	-	(12)	(6)
Intercompany settlement on demerger	-	-	57	(8)	(10)
Net funds movement	(73)	22	100	(84)	(31)
Opening net funds / (debt)	64	42	(58)	26	57
Closing net (debt) / funds	(9)	64	42	(58)	26

Note: The 2004 figures are sourced from the WH Smith PLC circular dated 7 July 2006.

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

COMPANY SECRETARY AND REGISTERED OFFICE

Ian Houghton, WH Smith PLC, Greenbridge Road, Swindon, Wiltshire SN3 3RX. Telephone 01793 616161.

WH Smith PLC is registered in England and Wales (Number 5202036).

COMPANY WEBSITE

This annual report and accounts together with the Notice of Meeting and other information can be found on the WH Smith PLC website at www.whsmithplc.co.uk.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at JPMorgan Cazenove, 20 Moorgate, London EC2R 6DA on Monday 26 January 2009 at 11.30am. The Notice of Annual General Meeting sets out the business to be transacted. Ordinary shareholders who wish to attend the meeting should detach the Attendance Card from the Form of Proxy and present it at the registrars' desk on arrival.

FORM OF PROXY

Ordinary shareholders unable to attend the Annual General Meeting should complete a Form of Proxy. To be effective it must be completed and lodged with the Company's registrars, Equiniti, by not later than 11.30am on 24 January 2009.

ELECTRONIC PROXY VOTING

You may if you wish register the appointment of a proxy for the meeting electronically, by logging onto the website www.sharevote.co.uk. Full details of the procedure are given on the website. You will need to have your Form of Proxy to hand when you log on as it has information required in the process. CREST members may appoint a proxy electronically via Equiniti (ID RA19).

REGISTRARS

If you have any enquiries about your shareholding in WH Smith PLC or wish to advise of a change of address, please contact Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA (telephone 0871 384 2060). A textphone facility for shareholders with hearing difficulties is available by telephoning 0871 384 2255. In addition, Equiniti provides a range of shareholder information online at www.shareview.co.uk (to register for this service you will need your shareholder reference number which can be found on the Form of Proxy).

FINANCIAL CALENDAR

Financial year end	31 August 2008	Half-year end	28 February 2009
Results announced	9 October 2008	Interim results announced	April 2009
Annual Report posted	November 2008	Interim dividend ex-dividend date	May 2009
Interim Management Statement	November 2008	Interim dividend record date	May 2009
Final dividend ex-dividend date	7 January 2009	Interim dividend payment date	June 2009
Final dividend record date	9 January 2009	Interim Management Statement	July 2009
Christmas trading statement	January 2009	Financial year end	31 August 2009
AGM	26 January 2009	Results announced	October 2009
Final dividend payment date	5 February 2009		

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

SHARE DEALING SERVICES

The Company has arranged for Shareview Dealing, a telephone and internet share dealing service offered by Equiniti, to be made available to UK shareholders wishing to buy or sell the Company's shares. For telephone dealing call 0871 384 2020 between 8.30am and 4.30pm, Monday to Friday, and for internet dealing log on to www.shareview.co.uk/ dealing. You will need your shareholder reference number shown on your share certificate.

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

SHAREGIFT

If you only have a small number of shares which are uneconomic to sell, you may wish to consider donating them to charity under ShareGIFT, a charity share donation scheme administered by the Orr Mackintosh Foundation. A ShareGIFT transfer form may be obtained from Equiniti. Further information about the Scheme can be found on the ShareGIFT website at www.sharegift.org.

SHAREHOLDER SECURITY

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

UK CAPITAL GAINS TAX

Demerger 31 August 2006

Following the demerger of the Company on 31 August 2006, in order to calculate any chargeable gains or losses arising on the disposal of shares after 31 August 2006, the original tax base cost of your ordinary shares of 2¹³/₈₁p (adjusted if you held your shares at 24 September 2004 and 22 May 1998 to take into account the capital reorganisations of 27 September 2004 and 26 May 1998 respectively (see below)) will be apportioned between the shareholdings of ordinary shares of 20p in the Company and ordinary shares of five pence in Smiths News in the ratio of 0.69585 and 0.30415 respectively. As a result of the share consolidation on 22 February 2008, the nominal value of the Company's ordinary shares increased from 20p per ordinary share to 22⁶/₆₇p per ordinary share.

Capital reorganisation 27 September 2004

If you acquired your shareholding on or before 24 September 2004, in order to calculate any chargeable gains or losses arising on the disposal of shares after 24 September, the original tax base cost of your ordinary shares of 55⁵/₉p (adjusted if you held your shares as at 22 May 1998 to take into account the capital reorganisation of 26 May 1998 (see below)) will have to be apportioned between the shareholdings of ordinary shares of 2¹³/₈₁p and 'C' shares resulting from the capital reorganisation. The cost of your shareholding of ordinary shares of 2¹³/₈₁p is calculated by multiplying the original base cost of your ordinary shares of 55⁵/₉p (adjusted where necessary to take into account the capital reorganisation of 26 May 1998 referred to above) by 0.73979.

Capital reorganisation 26 May 1998

If you acquired your shareholding on or before 22 May 1998, in order to calculate any chargeable gains or losses arising on the disposal of shares after 22 May 1998, the original tax base cost of your ordinary shares of 50p will have to be apportioned between the shareholdings of ordinary shares of 55⁵/₉p and redeemable 'B' shares resulting from the capital reorganisation.

The cost of your shareholding of ordinary shares of 55⁵/₉p is calculated by multiplying the original cost of your ordinary shares of 50p by 0.90714.

MARCH 1982 VALUES

31 March 1982 base values per share:

	Arising from an original shareholding of	
	'A' ordinary shares	'B' ordinary shares
Ordinary shares of 22 ⁶ / ₆₇ p	61.62p	50.92p
Smiths News PLC ordinary shares of 5p	26.93p	22.25p

