

13 October 2011

**WH SMITH PLC
PRELIMINARY RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 AUGUST 2011**

Further good profit and cash performance across the Group with full year dividend up 16%

KEY POINTS

- Group profit from trading operations¹ up 5% to £109m (2010: £104m)
 - Record profit performance from Travel with operating profit up 8% to £57m¹ (2010: £53m)
 - High Street operating profit up 2% to £52m¹ (2010: £51m)
- Total Group profit before tax of £93m (2010: £89m)
- Earnings per share² up 12% to 51.4p (2010: 45.7p)
- Strong balance sheet and cash generation
 - Strong free cash flow³ of £96m (2010: £89m)
 - Net cash of £41m at 31 August 2011
 - Completed return of £55m of cash to shareholders via a share buyback programme
 - Further £50m return of cash via share buyback announced in August
- Final dividend proposed of 15.3p, up 15% on the prior year; giving a total ordinary dividend per share of 22.5p, a 16% increase on the prior year
- Group total sales down 3% with like-for-like (LFL) sales down 5%:
 - Travel total sales up 1% with LFL sales down 3%
 - High Street total sales down 5% with LFL sales excluding entertainment down 3% and overall LFL sales down 6%, in line with our strategic plan
- Gross margin improved by 150 basis points year on year
- Further contract wins in Travel's growing international business with 60 units now open or agreed
- Cost savings in High Street delivered £3m ahead of plan, with a further £11m identified, making a total of £25m over the next 3 years

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

"We have delivered a good performance across the Group, despite a challenging trading environment, with further profit growth from High Street and record profit in Travel.

"We have seen another year of strong cash generation from both businesses and this is reflected in a 16% increase in the full year dividend and a further return of cash to shareholders.

"The economic conditions remain challenging, however we have planned accordingly. We are a resilient business with a strong and consistent record of both profit growth and cash generation and have opportunities for growth in both the UK and internationally."

¹ Group profit from trading operations and High Street and Travel operating profit are stated after directly attributable share-based payment and pension service charges and before central costs, interest and taxation

² Diluted

³ Net cash flow from operating activities adjusted for capital expenditure, pension deficit funding and net interest received. See analysis of cash flow

- Ends -

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WH Smith PLC's Preliminary Results 2011 are available at www.whsmithplc.co.uk. A copy of the Preliminary Results 2011 will shortly be available for inspection at the UK Listing Authority, 25 The North Colonnade, London E14 5HS.

FINANCIAL REVIEW

Group Summary

Group profit from trading operations¹ increased 5% on the prior year to £109m and the Group generated profit before tax of £93m (2010: £89m), an increase of 4% on the prior year.

Total Group sales were £1,273m (2010: £1,312m) with LFL sales down 5%. Travel sales grew by 1% to £455m, down 3% on a LFL basis. High Street sales were down 5% at £818m and down 6% on a LFL basis (excluding entertainment, LFL sales were down 3%).

Travel delivered another good performance, with operating profit¹ increasing by 8% to £57m, with sales up 1% and a further improvement in gross margin. The division is well placed for recovery when passenger numbers return to growth and the economy improves. We continue to identify further space opportunities and have opened 35 units in the UK with a further 35 planned for 2011/12. We have opened or won 60 units in our growing international channel, with 15 opened in the year and a further 25 planned to open during 2011/12. As at 31 August 2011, Travel operated from 561 units.

High Street continues to deliver consistent profit growth and strong cash generation with operating profit¹ of £52m, up 2% on the prior year. We continue with our strategy to rebalance the mix of the business towards our core categories whilst reducing our presence in entertainment. Cost savings of £14m were delivered, £3m ahead of plan. A further £11m of cost savings have been identified making a total of £25m over the next three years. As at 31 August 2011, High Street operated from 612 stores.

Earnings per share² increased by 12% to 51.4p (2010: 45.7p). This reflects the increase in profit, a lower basic weighted average number of shares in issue following the share buyback, and a decrease in the effective tax rate from 23% to 21%.

The Group remains highly cash generative and has a strong balance sheet. Net cash was £41m at 31 August 2011 with a Group free cash flow³ of £96m (2010: £89m). The Group has a committed multi-currency revolving credit facility of £70m through to January 2016. During the year we completed the £55m return of cash to shareholders.

On the 31 August 2011 the Board announced a further £50m return of cash to shareholders through a rolling share buyback programme. As at 12 October we have purchased 0.3m shares and returned £2m of cash to shareholders.

The Board has proposed a final dividend of 15.3p per share, up 15% year on year, giving a total ordinary dividend per share of 22.5p, a 16% increase on the prior year.

¹ Group profit from trading operations and High Street and Travel operating profit are stated after directly attributable share-based payment and pension service charges and before central costs, interest and taxation

² Diluted

³ Net cash flow from operating activities adjusted for capital expenditure, pension deficit funding and net interest received. See analysis of cash flow

The proposed increase in final dividend, together with the return of cash to shareholders, reflects the Board's confidence in the future prospects of the Group and the continuing strong cash generative nature of the business. We continue to invest in the business whilst consistently growing dividends and returning cash to shareholders. Including the share buyback announced on 31 August and the proposed final dividend, we will have returned £366m of cash to shareholders since 2007. We have done this through a combination of ordinary dividends, share buybacks and a special dividend.

Financial Year	Ordinary Dividend¹ £m	Buyback £m	Special Dividend £m	Total £m
2012	20 ³	50 ²	-	70
2011	29	55	-	84
2010	26	35	-	61
2009	23	-	-	23
2008	21	33	57	111
2007	17	-	-	17
	136	173	57	366

¹ Cash dividend paid

² Buyback announced on 31 August 2011

³ Proposed final dividend for year ended 31 August 2011

Trading Operations

Travel

Travel delivered a record profit performance despite continued soft passenger numbers and the tough economic climate. This demonstrates the strength of the business model which enables us to grow even in difficult economic conditions. Operating profit¹ increased by 8% to £57m (2010: £53m) due to higher sales and an increase in gross margin, and we continued to benefit from variable rents based on turnover. We expect passenger numbers to increase in the medium term and are well positioned when the economy improves and passenger numbers increase.

Total Travel sales grew by 1% driven by new business. LFL sales were down by 3%, reflecting soft passenger numbers. Gross margin increased by around 140bps during the period, due to good category mix management and further buying improvements.

We continue to identify further opportunities for growth in the UK and have opened 35 units in the period with a further 35 planned for 2011/12. In Air we opened 7 new units and have plans in place to open a further 4 units in the year ahead. In Rail, we opened 7 new units and plan to open units in 5 other regional railway stations during 2011/12. We have also opened 9 new hospital units in the year and we anticipate opening around a further 10 a year over the next few years. Our workplace channel continues to make good progress and we have opened 8 units in the year and anticipate opening a further 8 a year over the next few years. In addition, we have started to trial Funky Pigeon standalone stores, based on the success of the brand online, and at the end of the year opened 4 stores in high traffic urban locations. We plan to open a further 5 stores next year.

In our international markets, the WHSmith brand and offer continue to be well received and we have demonstrated we can add value and deliver improved performance in each location. We continue to make good progress in a number of regions, including Australia, India and the Middle East and have today announced 13 new units: 2 in Dublin, 2 in Stockholm, 7 in Hyderabad and 2 in Dubai. Ten of these new units are in air and, with the exception of Dublin, will operate under franchise agreements. We now have a total of 60 units either open or agreed, including a small number of units in Rail, Malls and Hospitals.

We will continue to grow our international channel in a low risk and pragmatic way, utilising our different operating models: direct lease, franchise and joint-venture. Of the 60 units we have already won, around 65% are franchise, around 25% direct lease and the remainder are joint venture.

¹ Group profit from trading operations and High Street and Travel operating profit are stated after directly attributable share-based payment and pension service charges and before central costs, interest and taxation

The Travel business now operates from 561 units, including motorway service area franchise units and coffee shops. Five units were closed, primarily due to landlord redevelopment. We renewed 43 contracts and completed 27 refits during the year. Excluding franchise units, Travel occupies 0.5m square feet (2010: 0.4m square feet).

High Street

High Street delivered a resilient performance with an operating profit¹ of £52m (2010: £51m), up 2% on the prior year. This was achieved through continuing with our strategy to focus on our core categories and rebalance the mix away from entertainment, whilst focusing on optimising margins, tightly controlling costs and delivering the retailing basics. Cash generation in the division continues to be strong.

High Street sales were down 5% in total and down 6% on a LFL basis, in line with our strategic plan. Excluding entertainment, LFL sales were down 3%. Gross margin improved by around 160bps through rebalancing the mix of our business, better buying terms, and improved sourcing and markdown management.

High Street delivered £14m of cost savings during the year, £3m ahead of plan. These came from a number of areas of the business including variable costs associated with entertainment, store efficiencies through improved use of technology and supply chain efficiencies. A further £11m of cost savings have been identified over the next three years, making total targeted savings of £25m between 2012 and 2014.

The High Street business now operates from 612 stores, which occupy 3.1m square feet (2010: 3.0m square feet). We opened 39 new stores during the year in line with our strategy to open in unserved catchments and including the stores acquired from British Bookshops and Stationers Limited (in administration).

Category Performance

Stationery:

We continue with our strategy to build on our market leading position in Stationery. LFL sales were down 2%, but we achieved a good share performance in both general and seasonal stationery. We managed our stock tightly, given the trading conditions, which helped support further improvement in gross margin. We continue to make progress developing the category and have introduced an extended range of Lego, including Lego mini-figures, as well as a number of new gifting ranges in time for Christmas. These will include a new range of Gadgetshop branded products, a brand we purchased last year, with all product sourced via our Far East office. Funkypigeon.com continues to deliver an encouraging performance and we have created high levels of interest and brand awareness through some effective TV advertising. In the Summer we also launched a Funky Pigeon iPhone 'app', which enables photos on your phone to be inserted into a card, paid for and sent immediately.

Books:

In Books, LFL sales were down 4% but gross margin was up year on year. The books market continues to be soft, however performance varied by sub-category. Non-Fiction saw an improvement year on year whilst Fiction and Kids annualised strong publishing schedules from 2009/10. We saw encouraging share performance versus the general retail market as we continue to implement our strategy to build our authority as a popular book specialist, providing our customers with choice, great value and promotions like the successful Richard and Judy Book Club. We have continued to develop our presence in the growing eBooks market and have today announced a new partnership with Kobo Inc., building on the success of our eBooks development to date. From the middle of October, we will launch a range of WiFi eReading devices, including the first WiFi touch screen eReader widely available in the UK. All of the devices will have access to over 2.2 million titles.

¹ Group profit from trading operations and High Street and Travel operating profit are stated after directly attributable share-based payment and pension service charges and before central costs, interest and taxation

News and Impulse:

News and Impulse LFL sales were down 3% year on year with an improvement in gross margin and we grew our market share. The newspaper and magazine market remains challenging however we saw an improvement in the second half of the year following the coverage of the Royal Wedding. We continue to develop the strongly-growing bookazine category and our range now includes over one hundred titles, including, *Ultimate Guide to the iPad 2* and *2011 IRB Rugby World Cup Official Guide*. Impulse categories continue to perform well.

Entertainment:

Entertainment LFL sales were down 55% reflecting our strategy to reduce our presence in the category.

Group profit

The Group generated a profit before tax of £93m (2010: £89m), an increase of 4% on the prior year.

£m	2011	2010	Profit Growth %
Travel operating profit ¹	57	53	8%
High Street operating profit ¹	52	51	2%
Group profit from trading operations¹	109	104	5%
Unallocated central costs	(16)	(15)	
Profit before finance charges and taxation	93	89	4%
Net finance (charges) / income	-	-	
Profit before taxation	93	89	4%

¹ Group profit from trading operations and High Street and Travel operating profit are stated after directly attributable defined benefit service charge and share-based payment costs and before central costs, interest and taxation

Net Finance Charges

The results include net finance charges of £nil (2010: £nil) reflecting current low rates of interest on cash balances.

Tax

The effective tax rate was 21% (2010: 23%), reflecting the lower statutory rate combined with the agreement of open items from prior years with the tax authorities. In the current year we expect the effective tax rate to be around 19%.

Fixed Charges Cover

Fixed charges, comprising property operating lease rentals and net finance charges, were covered 1.5 times (2010: 1.5 times) by profit before tax and fixed charges.

Dividends

The Board has proposed a final dividend of 15.3p per share, up 15% on the prior year, giving a total ordinary dividend per share of 22.5p, a 16% increase on the prior year. This increase on the prior year, together with the return of cash to shareholders announced on 31 August, reflects the cash generative nature of the Group and the Board's confidence in its future prospects. Subject to shareholder approval the dividend will be paid on 2 February 2012 to shareholders registered at the close of business on 6 January 2012. The Board has a progressive dividend policy and expects that over time dividends would be broadly covered twice by earnings calculated on a normalised tax basis.

Cash Flow

The Group generated free cash flow of £96m. The cash generative nature of both the High Street and Travel businesses is one of the key strengths of the Group.

£m	2011	2010
Operating profit	93	89
Depreciation, amortisation & amounts written off fixed assets	38	39
Working capital	3	3
Capital expenditure	(36)	(29)
Tax	(10)	(20)
Net interest received	-	1
Net provisions	-	(1)
Other items	8	7
Free cash flow	96	89

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

Capital expenditure was £36m in the year, £7m higher than last year as a result of new stores in Travel and High Street together with on-going investment in the existing estate. In the current year we expect capital expenditure to be around £34m. Net corporation tax paid was £10m and includes a tax refund relating to a payment on account of an unresolved item from prior years.

£m	2011	2010
New stores and store development	15	8
Refurbished stores	11	10
Systems	8	8
Other	2	3
Total	36	29

Net Funds

The movement in net funds is as follows:

£m	2011	2010
Opening net funds	56	45
Free cash flow	96	89
Equity dividends paid ¹	(29)	(26)
Pension deficit funding	(14)	(13)
Net purchase of own shares for employee share schemes	(12)	(4)
Return of cash to shareholders	(55)	(35)
Acquisition of British Bookshops and Stationers Limited	(1)	-
Closing net funds	41	56

¹ Dividends paid include 2011 interim and 2010 final dividends paid.

In addition to the £96m of free cash flow generated in the year, the Group has seen a net cash outflow of £56m in relation to non trading operations. This includes £29m of dividend payments, £14m pension funding and net ESOP trust purchases of £12m. During the year, the Group completed the £55m return of cash to shareholders by way of an on-market share buyback programme. On 31 August 2011 the Board announced a further £50m return of cash to shareholders via an on market share buyback programme. As at 31 August 2011, the Group had net funds of £41m with net cash of £41m. The Group has a committed multi-currency revolving credit facility of £70m through to January 2016.

Balance Sheet

The Group had net assets of £156m at the end of the period (2010: £186m), reflecting the cash generated during the year and the £55m return of cash to shareholders through the share buyback.

£m	2011	2010
Goodwill and other intangible assets	56	56
Property plant and equipment	151	158
	207	214
Inventories	154	151
Payables less receivables	(201)	(200)
Working capital	(47)	(49)
Net current and deferred tax liability	(36)	(26)
Provisions	(9)	(8)
Operating assets employed	115	131
Net funds	41	56
Net assets excluding pension liability	156	187
Pension liability	-	(1)
Total net assets	156	186

Return on Capital Employed

Total capital employed and ROCE were as follows:

	Operating Capital Employed £m ¹	ROCE ² %	ROCE% with operating leases capitalised ³
Travel	55	104%	22%
High Street	124	42%	16%
Retail	179	61%	18%
Unallocated central items	(64)		
Operating assets employed	115	81%	18%

¹ Net assets adjusted for net funds and retirement benefit obligations.

² Return on capital employed is calculated as the operating profit as a percentage of operating capital employed.

³ Return on capital employed after capitalised net operating leases including internal rent is calculated as the adjusted profit as a percentage of operating assets after capitalising operating leases. Adjusted profit is stated after adding back the annual net rent and charging depreciation on the value of capitalised leases. The value of capitalised operating leases is based on the net present value of future rent commitments.

For the prior year, comparable ROCE was 68 per cent (18 per cent - after capitalised operating leases).

Pensions

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

The IAS 19 pension deficit on the defined benefit WHSmith Pension Trust at 31 August 2011 was £nil (2010: £nil) and the IAS 19 pension deficit on the relatively small UNS defined benefit pension scheme was also £nil (2010: £1m). There is an actuarial deficit due to the different assumptions and calculation methodologies used compared to those under IAS 19.

Operating leases

The Group's stores are held mainly under operating leases that are not capitalised and therefore are not included as debt for accounting purposes. The High Street leases are on standard 'institutional' lease terms, typically with a 10-15 year term, subject to five year upwards-only rent reviews. The Travel stores operate mainly through turnover related leases, usually with minimum rent guarantees, and generally varying in length from five to ten years.

The business has an annual minimum net rental commitment of £166m (2010: £161m) (net of £6m of external rent receivable (2010: £7m)). The total future rental commitment at the balance sheet date amounted to £1,129m (2010: £1,047m) with the leases having an average life of 7 years. Although large, these commitments are characteristic of the retail sector and the risks associated with them are influenced mainly by the quality and location of the sites.

Contingent liabilities

The Group has contingent liabilities relating to reversionary property leases. Any such contingent liability which crystallises will be apportioned between the Group and Smiths News PLC in the ratio 65:35 pursuant to the terms of the Demerger Agreement (provided that the Smiths News PLC liability is limited to £5m in any 12 month period). We have estimated the Group's 65 per cent share of the future cumulative contingent rental commitment at approximately £30m (2010: £40m).

WH Smith PLC

Group Income Statement

For the year ended 31 August 2011

£m	Note	2011	2010
Continuing operations			
Revenue		1,273	1,312
Operating profit	2	93	89
Investment income	4	1	1
Finance costs	5	(1)	(1)
Profit before tax		93	89
Income tax expense	6	(20)	(20)
Profit for the year		73	69
Earnings per share			
Basic	7	52.1p	47.6p
Diluted	7	51.4p	45.7p
Non GAAP measures			
Equity dividends per share¹		22.5p	19.4p
Fixed charges cover	11	1.5x	1.5x

¹ Dividend per share is the final proposed dividend of 15.3p (2010: 13.3p) and the interim dividend of 7.2p (2010: 6.1p)

WH Smith PLC

Group Statement of Comprehensive Income

For the year ended 31 August 2011

£m	Note	2011	2010
Profit for the period		73	69
Other comprehensive income:			
Actuarial losses on defined benefit pension schemes	12	(14)	(12)
Exchange differences on translation of foreign operations		(1)	-
Mark to market valuation of derivative financial asset		-	(1)
Other comprehensive loss for the period, net of tax		(15)	(13)
Total comprehensive income for the period		58	56

WH Smith PLC

Group Balance Sheet

As at 31 August 2011

£m	Note	2011	2010
Non-current assets			
Goodwill		32	32
Other intangible assets		24	24
Property, plant and equipment		151	158
Deferred tax assets		7	10
Trade and other receivables		4	4
		218	228
Current assets			
Inventories		154	151
Trade and other receivables		57	57
Current tax asset		7	21
Cash and cash equivalents	9	41	56
		259	285
Total assets		477	513
Current liabilities			
Trade and other payables		(247)	(246)
Current tax liabilities		(44)	(51)
Short-term provisions		(3)	(3)
		(294)	(300)
Non-current liabilities			
Retirement benefit obligation	12	-	(1)
Deferred tax liabilities		(6)	(6)
Long-term provisions		(6)	(5)
Other non-current liabilities		(15)	(15)
		(27)	(27)
Total liabilities		(321)	(327)
Total net assets		156	186
Total equity		156	186

WH Smith PLC

Group Balance Sheet

As at 31 August 2011 (continued)

£m	Note	2011	2010
Shareholders' equity			
Called up share capital		31	33
Share premium		2	1
Capital redemption reserve		6	4
Revaluation reserve		2	2
ESOP reserve		(25)	(29)
Hedging reserve		-	-
Translation reserve		(3)	(2)
Other reserve		(207)	(191)
Retained earnings		350	368
Total equity		156	186

The consolidated financial statements of WH Smith PLC, registered number 5202036, were approved by the Board of Directors and authorised for issue on 13 October 2011 and were signed on its behalf by:

Kate Swann

Group Chief Executive

Robert Moorhead

Group Finance Director

WH Smith PLC

Group Cash Flow Statement

For the year ended 31 August 2011

£m	Note	2011	2010
Net cash inflow from operating activities	10	118	104
Investing activities			
Interest received		-	1
Purchase of property, plant and equipment		(36)	(24)
Purchase of intangible assets		(5)	(5)
Proceeds on disposal of property, plant and equipment		5	-
Acquisition of business		(1)	-
Net cash outflow from investing activities		(37)	(28)
Financing activities			
Dividend paid		(29)	(26)
Purchase of own shares for cancellation		(55)	(35)
Purchase of own shares for employee share schemes		(12)	(4)
Repayments of obligations under finance leases		-	(2)
Net cash used in financing activities		(96)	(67)
Net (decrease) / increase in cash and cash equivalents in year		(15)	9
Opening net cash and cash equivalents		56	47
Closing net cash and cash equivalents		41	56
Reconciliation of net cash flow to movement in net funds			
£m	Note	2011	2010
Net funds at beginning of the year		56	45
(Decrease) / increase in cash and cash equivalents		(15)	9
Net movement in finance leases		-	2
Net funds at end of the year	9	41	56

WH Smith PLC

Group Statement of Changes in Equity

For the year ended 31 August 2011

£m	Share capital and share premium	Capital redemption reserve	Revaluation reserve	ESOP reserve	Hedging and translation reserves	Other reserve ¹	Retained earnings	Total
Balance at 1 September 2010	34	4	2	(29)	(2)	(191)	368	186
Total comprehensive (loss) / income for the period	-	-	-	-	(1)	-	59	58
Recognition of share-based payments	-	-	-	-	-	-	8	8
Deferred tax on share-based payments	-	-	-	-	-	-	(1)	(1)
Premium on issue of shares	1	-	-	-	-	-	-	1
Dividends paid	-	-	-	-	-	-	(29)	(29)
Employee share schemes	-	-	-	4	-	(16)	-	(12)
Purchase of own shares for cancellation	(2)	2	-	-	-	-	(55)	(55)
Balance at 31 August 2011	33	6	2	(25)	(3)	(207)	350	156
Balance at 1 September 2009	35	2	2	(28)	(1)	(187)	365	188
Total comprehensive (loss) / income for the period	-	-	-	-	(1)	-	57	56
Recognition of share-based payments	-	-	-	-	-	-	7	7
Premium on issue of shares	1	-	-	-	-	-	-	1
Dividends paid	-	-	-	-	-	-	(26)	(26)
Employee share schemes	-	-	-	(1)	-	(4)	-	(5)
Purchase of own shares for cancellation	(2)	2	-	-	-	-	(35)	(35)
Balance at 31 August 2010	34	4	2	(29)	(2)	(191)	368	186

¹ The 'Other' reserve includes reserves created in relation to the historical capital reorganisation, proforma restatement and the demerger from Smith News PLC in 2006, as well as movements relating to employee share schemes of £16m (2010: £4m).

WH Smith PLC

Notes to Accounts

1. Preparation of the preliminary announcement

a) Basis of preparation

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

The preliminary announcement for the 12 months to 31 August 2011 has been prepared on a consistent basis with the financial accounting policies set out in the Accounting Policies section of the WH Smith PLC Annual Report and Accounts 2010 except as described below.

The Group has adopted the following standards and interpretations which became mandatory during the current financial year, but have had no material impact on the Group's financial statements:

IAS 32 (Revised)	Classifications of Rights issues
IAS 39 (Revised)	Financial Instruments: Recognition and Measurement
IFRIC 17	Distributions of Non-cash Assets to Owners
IFRIC 18	Transfer of Assets from Customers
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments
Amendments to IFRS 2	Group cash-settled share-based payment transactions
Annual Improvements to IFRS (issued April 2009)	
Annual Improvements to IFRS (issued May 2010)	

b) Preliminary announcement

The financial information contained within this preliminary announcement for the 12 months to 31 August 2011 and 12 months to 31 August 2010 do not comprise statutory financial statements for the purpose of the Companies Act 2006, but are derived from those statements. The statutory accounts for WH Smith PLC for the 12 months to 31 August 2010 have been filed with the Registrar of Companies and those for the 12 months to 31 August 2011 will be filed following the Company's annual general meeting.

The auditors' reports on the accounts for both the 12 months to 31 August 2011 and 12 months to 31 August 2010 were unqualified and did not include a statement under Section 498 (2) or (3) of the Companies Act 2006.

The Annual Report and Accounts will be available for shareholders in November 2011.

WH Smith PLC
Notes to Accounts

2. Group operating profit

£m	2011	2010
Turnover	1,273	1,312
Cost of sales	(611)	(650)
Gross profit	662	662
Distribution costs ¹	(490)	(495)
Administrative expenses	(83)	(80)
Other income ¹	4	2
Group operating profit	93	89

¹ 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 (2010: £3m).

£m	2011	2010
Cost of inventories recognised as an expense	611	650
Write-down of inventories in the period	4	6
Depreciation and amounts written off property, plant and equipment	32	34
Amortisation and amounts written off intangible assets	6	5
Net operating lease charges		
- land and buildings	183	181
- equipment and vehicles	1	1
Other occupancy costs	62	62
Staff costs	198	203

3. Segmental analysis of results

For management and financial reporting purposes, the Group is organised into two operating divisions – High Street and Travel. These divisions are the basis on which the Group reports its IFRS 8 operating segment information.

a) Group revenue

£m	2011	2010
Continuing operations:		
Travel	455	452
High Street	818	860
Group revenue	1,273	1,312

WH Smith PLC
Notes to Accounts

3. Segmental analysis of results (continued)

b) Group results

£m	2011	2010
Continuing operations:		
Travel	57	53
High Street	52	51
Profit from trading operations	109	104
Unallocated costs	(16)	(15)
Profit before finance charges and taxation	93	89
Investment income	1	1
Finance costs	(1)	(1)
Income tax expense	(20)	(20)
Profit for the year	73	69

4. Investment income

£m	2011	2010
Interest on bank deposits	-	1
Net income on pension schemes (Note 12)	1	-
	1	1

5. Finance costs

£m	2011	2010
Unwinding of discount on provisions	1	1
	1	1

WH Smith PLC
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6. Income tax expense

£m	2011	2010
Tax on profit from continuing operations	28	27
<i>Standard rate of UK corporation tax 27.16% (2010: 28%)</i>		
Adjustment in respect of prior year UK corporation tax	(10)	(4)
Total current tax charge - continuing operations	18	23
Deferred tax – current year	-	(1)
Deferred tax – prior year	2	(2)
Tax on profit – continuing operations	20	20
<i>Effective tax rate on continuing activities</i>	<i>21%</i>	<i>23%</i>

Reconciliation of the taxation charge

£m	2011	2010
Tax on profit from continuing operations at standard rate of UK corporation tax 27.16% (2010: 28%)	25	25
Tax effect of items that are not deductible or not taxable in determining taxable profit	3	1
Adjustment in respect of prior years	(8)	(6)
Tax charge - continuing operations	20	20

The UK corporation tax rate fell to 26 per cent with effect from 1 April 2011 (previously 28 per cent). The rate of corporation tax will change from 26 per cent to 25 per cent from 1 April 2012. The UK government has also indicated that it intends to enact future reductions in the UK corporation tax rate of one per cent each year until 1 April 2014 at which date the UK standard rate of corporation tax will be 23 per cent.

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7. Earnings per share

a) Earnings

£m	2011	2010
Earnings attributable to shareholders	73	69

b) Basic and diluted earnings per share

Pence	2011	2010
Basic	52.1	47.6
Diluted	51.4	45.7

Diluted earnings per share takes into account various share awards and share options including SAYE schemes, which are expected to vest, and for which a sum below fair value will be paid.

c) Weighted average share capital

Millions	2011	2010
Weighted average shares in issue for earnings per share	140	145
Add weighted average number of ordinary shares under option	2	6
Weighted average ordinary shares for diluted earnings per share	142	151

8. Dividends

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

£m	2011	2010
Dividends		
Interim dividend of 7.2p per ordinary share (2010: 6.1p per ordinary share)	10	9
Final dividend of 13.3p per ordinary share (2010: 11.3p per ordinary share)	19	17
	29	26

The proposed dividend of 15.3p per share, amounting to a final dividend of £20m, is not included as a liability in these financial statements and, subject to shareholder approval, will be paid on 2 February 2012 to shareholders on the register at the close of business on 6 January 2012.

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9. Analysis of net funds

Movements in net funds can be analysed as follows:

£m	2010	Cash flow	2011
Cash and cash equivalents	56	(15)	41
Debt			
- Obligations under finance leases	-	-	-
Net funds	56	(15)	41

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

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

The Group has in place a five-year committed multi-currency revolving credit facility of £70m. The revolving credit facility is due to mature on 24 January 2016. The utilisation is interest-bearing at LIBOR plus 110 basis points. Utilisation at 31 August 2011 was £nil, and the utilisation of the previous facility as at 31 August 2010 was £nil.

10. Net cash inflow from operating activities

£m	2011	2010
Operating profit from continuing operations	93	89
Depreciation of property, plant and equipment	30	31
Impairment of property, plant and equipment	2	3
Amortisation of intangible assets	6	5
Share-based payments	8	7
Increase in inventories	(3)	-
(Increase) / decrease in receivables	-	(1)
Increase in payables	6	4
Pension funding	(14)	(13)
Income taxes paid	(10)	(20)
Charge to provisions	2	1
Cash spend against provisions	(2)	(2)
Net cash inflow from operating activities	118	104

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11. Fixed Charges Cover

£m	2011	2010
Net finance charges	-	-
Net operating lease rentals	184	182
Total fixed charges	184	182
Profit before tax	93	89
Profit before tax and fixed charges	277	271
Fixed charges cover - times	1.5x	1.5x

12. Retirement benefit obligation

WH Smith PLC has operated a number of defined benefit and defined contribution pension plans. The main pension arrangements for employees are operated through a defined benefit scheme, WHSmith Pension Trust, and a defined contribution scheme, WH Smith Retirement Savings Plan. The most significant scheme is WHSmith Pension Trust, which is described in Note 12 a) i).

The retirement benefit obligations recognised in the balance sheet within non-current liabilities for the respective schemes at the relevant reporting dates were:

£m	2011	2010
WHSmith Pension Trust	-	-
United News Shops Retirement Benefits Scheme	-	(1)
Retirement benefit obligation recognised in the balance sheet	-	(1)

a) Defined benefit pension schemes

i) The WHSmith Pension Trust

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

In September 2005, the Pension Trust Trustee adopted a new investment policy. The assets in the investment fund were restructured and substantially invested such that they are expected to alter in value in line with changes in the pension liability caused by changes in interest and inflation (a Liability Driven Investment ('LDI') policy). A full actuarial valuation of the Scheme is carried out every three years with interim reviews in the intervening years. The latest full actuarial valuation of the Pension Trust was carried out as at 31 March 2009 by independent actuaries using the projected unit credit method. Following this valuation, the deficit was £113m, and a revised deficit funding schedule of £11m (subject to indexation) over the following ten years was agreed with the Trustee. During the year, the Group made a contribution of £14m to the WHSmith Pension Trust (2010: £13m) in accordance with the agreed pension deficit funding schedule, which includes a catch-up payment relating to the period from 31 March 2009 to the date that the revised contributions started to be paid.

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

£m	2011	2010
Present value of the obligations	(716)	(761)
Fair value of plan assets	785	786
Surplus in the scheme	69	25
Amounts not recognised	(69)	(25)
Retirement benefit obligation recognised in the balance sheet	-	-

WH Smith PLC
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12. Retirement benefit obligation (continued)

a) Defined benefit pension schemes (continued)

i) The WHSmith Pension Trust (continued)

The pension scheme is closed to further accrual and given the LDI policy adopted by the Pension Trustee, the present value of the economic benefits of the IAS 19 surplus in the pension scheme of £69m (2010: £25m) available on a reduction of future contributions is £nil (2010: £nil). As a result the Group has not recognised this IAS 19 surplus on the balance sheet. Following a change in investment managers the fair value of plan assets at 31 August 2010 has been re-presented to reflect a change in valuation on a section of the scheme's assets. This has no impact on the Group's primary statements as at 31 August 2010. Included in the movement in the surplus during the period is the effect of the switch from RPI to CPI on future deferred member liabilities.

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:

%	2011	2010
Rate of increase in pension payments	3.52	3.26
Rate of increase in deferred pensions	2.62	3.26
Discount rate	5.37	4.87
RPI Inflation assumption	3.52	3.26
CPI Inflation assumption	2.62	-

The amounts recognised in the income statement were as follows:

£m	2011	2010
Current service cost	-	-
Interest cost	(37)	(37)
Expected return on scheme assets	38	37
	1	-

The charge for the current service cost has been included in administrative costs. The interest cost net of the expected return on scheme assets has been included in investment income (Note 4). Actuarial gains and losses have been reported in the statement of comprehensive income.

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

£m	2011	2010
Actuarial gains / (losses)	29	(14)
Amounts not recognised	(44)	1
	(15)	(13)

In addition, a £1m credit (2010: £1m credit) has been recognised in the statement of comprehensive income in relation to actuarial gains in the year on the United News Shops Retirement Benefits Scheme.

The total cumulative actuarial loss recognised in the statement of comprehensive income since the 'sectionalisation' of the scheme on demerger from Smith News PLC on 31 August 2006 is £24m (2010: loss of £9m).

WH Smith PLC
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12. Retirement benefit obligation (continued)

a) Defined benefit pension schemes (continued)

i) The WHSmith Pension Trust (continued)

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

£m	2011	2010
At 1 September	(761)	(717)
Current service cost	-	-
Interest cost	(37)	(37)
Actuarial gains / (losses)	61	(28)
Benefits paid	21	21
At 31 August	(716)	(761)

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

£m	2011	2010
At 1 September	786	743
Expected return on scheme assets ¹	38	37
Actuarial gains / (losses)	(32)	14
Contributions from the sponsoring companies	14	13
Benefits paid	(21)	(21)
At 31 August	785	786

¹ The actual return on scheme assets was a gain of £7m (2010: gain of £51m)

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

£m	2011	2010
Liquid cash funds	650	670
Inflation swaps	106	81
Equity call options	29	35
	785	786

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 2011 this was 4.57 per cent (2010: 4.48 per cent).

The mortality assumptions (in years) underlying the value of the accrued liabilities for both 2010 and 2011 are:

	2011		2010	
	Male	Female	Male	Female
Life expectancy at age 65				
Member currently aged 65	21.5	23.4	21.4	23.3
Member currently aged 45	23.4	25.2	23.3	25.1
Life expectancy at age 60				
Member currently aged 60	26.2	28.1	26.1	28.0
Member currently aged 45	27.7	29.6	27.6	29.5

WH Smith PLC
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12. Retirement benefit obligation (continued)

a) Defined benefit pension schemes (continued)

i) The WHSmith Pension Trust (continued)

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

£m	2011	2010	2009	2008	2007
Present value of defined benefit obligations	(716)	(761)	(717)	(662)	(657)
Fair value of scheme assets	785	786	743	793	657
Surplus / (deficit) in the scheme	69	25	26	131	-

Experience adjustments on scheme liabilities					
Amount (£m)	(8)	(2)	26	14	22
Percentage of scheme liabilities (%)	1	-	(4)	(2)	(3)
Experience adjustments on scheme assets					
Amounts (£m)	(32)	14	(80)	110	1
Percentage of scheme assets (%)	(4)	2	(11)	14	-

ii) United News Shops Retirement Benefits Scheme

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

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

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

£m	2011	2010
Present value of the obligations	(4)	(5)
Fair value of plan assets	4	4
Retirement benefit obligation recognised in the balance sheet	-	(1)

During the year a £1m credit (2010: £1m credit) has been recognised in the statement of other comprehensive income in relation to actuarial losses in the year on the United News Shops Retirement Benefits Scheme.

b) Defined contribution pension scheme

The pension cost charged to income for the Group's defined contribution schemes amounted to £3m for the year ended 31 August 2011 (2010: £3m).