

11 October 2012

**WH SMITH PLC
PRELIMINARY RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 AUGUST 2012**

Strong performance across the Group with profit ahead of expectations, EPS up 22% and final dividend up 22%

KEY POINTS

- Total Group profit before tax up 10% to £102m (2011: £93m)
- Group profit from trading operations¹ up 7% to £117m (2011: £109m)
 - Good performance from Travel with trading profit¹ up 11% to £63m (2011: £57m)
 - Resilient performance from High Street with trading profit¹ up 4% to £54m (2011: £52m)
- Earnings per share² up 22% to 62.7p (2011: 51.4p)
- Final dividend proposed of 18.6p, up 22% on the prior year; giving a total ordinary dividend per share of 26.9p, a 20% increase on the prior year
- Strong balance sheet and cash generation
 - Strong free cash flow³ of £91m
 - Net cash of £36m as at 31 August 2012
 - Completed £50m share buyback programme and a further £50m return of cash via share buyback programme announced in August
 - Actuarial pension deficit of £75m following the agreement of the 2012 triennial valuation, compared to a deficit of £113m three years ago
- Group total sales down 2% with like-for-like (LFL) sales down 5%:
 - Travel total sales up 2% with LFL sales down 3%
 - High Street total sales down 5% with LFL sales down 5%, in line with our strategic plan
- Gross margin improved by 140 basis points
- Further good progress in Travel's growing international channel with 101 units now open or won
- Additional £12m of cost savings announced today, giving total target savings of £25m over the next three years

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

"We have delivered another strong performance across the Group with EPS up 22% in the year. In Travel we have grown profit by 11% and have made further good progress in our international channel, with over 100 units either open or won. In High Street we saw another resilient performance, with profit up 4% and continued strong cash generation.

"The Group remains cash generative enabling us to invest in our businesses and in new opportunities, whilst returning cash to shareholders. We are recommending to increase the final dividend by 22%, which is in addition to the £50m share buyback completed last year and the further £50m announced in August.

"Looking ahead, we expect the trading environment to remain challenging, however we are a resilient business with a consistent record of both profit growth and cash generation, and we are well positioned for continued growth in the UK and internationally."

¹ Group profit from trading operations and High Street and Travel trading profit are stated after directly attributable share-based payment and pension service charges and before central costs, interest and taxation. See note 3.

² Diluted

³ Net cash flow from operating activities adjusted for net capital expenditure, pension deficit funding and net interest received. See analysis of cash flow (page 5)

Enquiries:

WH Smith PLC

Nicola Hillman

Mark Boyle

Media Relations

Investor Relations

020 7851 8850

020 7851 8820

Brunswick

Simon Sporborg / Catriona McDermott

020 7404 5959

WH Smith PLC's Preliminary Results 2012 are available at www.whsmithplc.co.uk. A copy of the Preliminary Results 2012 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 7% on the prior year to £117m (2011: £109m) and the Group generated profit before tax of £102m (2011: £93m), an increase of 10% on the prior year.

Total Group sales were £1,243m (2011: £1,273m) with LFL sales down 5%. Travel sales grew by 2% to £462m, down 3% on a LFL basis. High Street sales were down 5% at £781m and down 5% on a LFL basis.

Travel delivered another good performance with trading profit¹ increasing by 11% to £63m with sales up 2% and further improvement in gross margin. We continue to invest in the business and in the UK we opened 35 new units during the year, giving us a total of 557 units in this country. We expect to open a similar number of new units in the year ahead. In our international channel we opened a further 30 units. We now have 62 units open in this channel and a further 39 units yet to open, giving us a total of 101 units either open or won in international locations. The business is well placed for recovery when the economy improves and passenger numbers return to growth. As at 31 August 2012, Travel operated from 619 units.

High Street delivered a resilient performance in challenging trading conditions, with trading profit¹ up 4% to £54m and further good cash generation. We continue with our strategy to rebalance the mix of the business towards our core categories. We saw a good gross margin performance and costs were tightly controlled. Cost savings of £17m were delivered in the year. An additional £12m of cost savings have been identified making a total of £25m over the next three years. As at 31 August 2012, High Street operated from 618 stores.

Earnings per share² increased by 22% to 62.7p (2011: 51.4p). 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 21% to 18%.

The Group remains highly cash generative and has a strong balance sheet. Net cash was £36m at 31 August 2012 (2011: £41m) with a Group free cash flow³ of £91m (2011: £96m). The Group has a committed multi-currency revolving credit facility of £70m through to January 2016.

During the year we completed the £50m return of cash to shareholders announced in August 2011. On the 23 August 2012 the Board announced a further £50m return of cash to shareholders through a share buyback programme. As at 10 October 2012 we have purchased 0.3m shares and returned £2m of cash to shareholders.

The Board has proposed a final dividend of 18.6p per share, a 22% increase on last year giving a total ordinary dividend per share of 26.9p, a 20% increase on the prior year.

¹ Group profit from trading operations and High Street and Travel trading profit are stated after directly attributable share-based payment and pension service charges and before central costs, interest and taxation. See note 3.

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 (page 5)

The proposed increase in final dividend 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, including capital expenditure in the year of £37m, whilst consistently growing dividends and returning cash to shareholders as part of our long-term strategy to create value for shareholders. Including the share buyback announced on 23 August 2012 and the proposed final dividend, we will have returned £450m 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	Buyback	Special Dividend	Total
	£m	£m	£m	£m
2013	23 ³	50 ²	-	73
2012	31	50	-	81
2011	29	55	-	84
2010	26	35	-	61
2009	23	-	-	23
2008	21	33	57	111
2007	17	-	-	17
	170	223	57	450

¹ Cash dividend paid

² Buyback announced on 23 August 2012

³ Proposed final dividend for year end 31 August 2012

Trading Operations

Travel

Travel delivered a record profit performance despite the tough economic climate, demonstrating the strength of the business model which enables us to continue to grow even in this challenging economic environment. Travel's trading profit¹ increased by 11% to £63m (2011: £57m). Compared to last year, sales were up and we saw a further improvement in gross margin. We continue to benefit from variable rents based on turnover. We are well positioned when the economy improves and passenger numbers return to growth.

Total Travel sales grew by 2%, with LFL sales down by 3%. Gross margin increased by around 160bps during the period, primarily driven by active category mix management.

We continue to identify opportunities for growth in the UK and opened 35 new units during the year, including: 6 in air, 4 in rail, 2 in motorway service areas, 7 in hospitals and 8 workplace units. We plan to open a similar number of units in 2012/13 and anticipate opening 10 hospital units and 8 workplace units a year over the next few years.

We continue to invest for the future in Travel building on the strength of our relationships with landlords and our expertise to meet the needs of the travelling customer. For example, in technology, where we have invested in self-service checkouts and handheld scanners; in resources, where we have strengthened senior management, space planning and our international division; and in format development, where we see opportunities to extend the WHSmith brand and develop new brands.

We are pleased with the performance of our international units. The WHSmith brand and offer are well received in each location by both customers and landlords, and we have demonstrated we can add value and deliver improved performance. We continue to identify opportunities to grow, in a low risk and pragmatic way, and we have made further good progress in a number of regions, including India, Australia and the Middle East. Today we have announced 21 new units: 2 in Australia, 3 new units in Malaysia and 11 new units in the Middle East, including 5 in Amman airport in Jordan, and in September 2012 we acquired a café business, 'Fresh Plus', consisting of 5 cafés in hospitals in Australia. We now have 101 international units either open or won, across four channels.

¹ Group profit from trading operations and High Street and Travel trading profit are stated after directly attributable share-based payment and pension service charges and before central costs, interest and taxation. See note 3.

We continue to utilise our three operating models and, of the 101 units we have already won, 67% are franchise, 25% direct lease and the remainder are joint venture.

The Travel business now operates from 619 units, including motorway service area franchise units and coffee shops. 7 units were closed in the period, primarily due to landlord redevelopment. We renewed 32 contracts and completed 16 refits during the period. Excluding franchise units, Travel occupies 0.5m square feet (2011: 0.5m square feet).

High Street

High Street delivered a resilient profit performance in challenging trading conditions, delivering trading profit¹ of £54m (2011: £52m), up 4% on the prior year. This was achieved by continuing to strengthen our core categories, whilst focusing on optimising margins, 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 5% on a LFL basis, reflecting the current economic climate and our active management of Entertainment, particularly in the first half. Gross margin improved by around 120bps, through rebalancing the mix of our business, better buying terms, and improved sourcing and markdown management.

Cost savings of £17m were delivered in the year. These came from a number of areas across the business, including the rollout of self-scan checkouts to 109 High Street stores, our energy efficient lighting initiative and other operational efficiencies. We have identified an additional £12m of new cost savings, making a total of £25m over the next three years to 2015.

The High Street business now operates from 618 stores, which occupy 3.0m square feet (2011: 3.1m square feet). We opened 12 new stores during the year in line with our strategy to open in unserved catchments. 6 stores were closed, primarily due to landlord redevelopment.

Category Performance

Stationery:

Our strategy to build on our market leading position in Stationery remains unchanged. LFL sales were down 1%, with gross margin up and we saw a good share performance across both general and seasonal stationery. We managed our stock tightly in all categories, given the trading conditions, which helped support this improvement in gross margin. We have developed the category further and have introduced a number of new ranges in time for Christmas this year, including a wide range of Gadgetshop branded products. We saw a strong performance from funkypigeon.com over the key seasons and we continue to create high levels of brand awareness. The customer offer has been developed further including the launch of 'Me to You' cards, an increased range of humour cards and new personalised gifting products.

Books:

In Books, LFL sales were down 7% but gross margin was up year on year. The books market continues to vary by sub-category. Kids saw an improvement year on year, driven by good publishing, whilst in Non-Fiction we annualised strong publishing from the previous year. In Fiction, the first half of the year remained weak, with the second half much stronger due to the positive publishing schedule, led by the *Fifty Shades* trilogy. We saw encouraging share performance versus the general retail market across all three of the sub-categories, reinforcing the strength of our consumer proposition. We continue to develop our presence in the eBooks market through our partnership with Kobo and performance continues to be ahead of plan. During the year we successfully rolled out Kobo shops into 100 of our largest High Street stores. We have also recently launched the new Kobo device line up for this season, including the Kobo *Mini*, the Kobo *Glo*, and, in November, a 7" HD android tablet, the Kobo *Arc*.

News and Impulse:

News and Impulse LFL sales were down by 4% year on year with further improvement in gross margin and a strong market share performance. The newspaper and magazine market remains challenging, however we continue to develop the strongly-growing bookazine category with our range now consisting of over one hundred titles, with some successful recent launches including a Jubilee edition and a *Bradley Wiggins* special edition. Impulse categories continue to perform well.

¹ Group profit from trading operations and High Street and Travel trading profit are stated after directly attributable share-based payment and pension service charges and before central costs, interest and taxation. See note 3.

Group profit

The Group generated a profit before tax of £102m (2011: £93m), an increase of 10% on the prior year.

£m	2012	2011	Profit Growth %
Travel trading profit ¹	63	57	11%
High Street trading profit ¹	54	52	4%
Group profit from trading operations¹	117	109	7%
Unallocated central costs	(15)	(16)	
Profit before finance charges and taxation	102	93	10%
Net finance (charges) / income	-	-	
Profit before taxation	102	93	10%

¹ Group profit from trading operations and High Street and Travel trading 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

Net finance charges were £nil (2011: £nil) reflecting the current low rates of interest.

Tax

The effective tax rate was 18% (2011: 21%), reflecting the lower statutory rate combined with the agreement with the tax authorities of open items from prior years. In the current year we expect the effective tax rate to be around 18%. We expect the effective tax rate to remain below the UK statutory rate in the medium term. The exact tax rate achieved will depend on the underlying profitability of the Group and continued progress in agreeing outstanding tax assessments with the tax authorities.

Fixed Charges Cover

Fixed charges, comprising property operating lease rentals and net finance charges, were covered 1.6 times (2011: 1.5 times) by profit before tax and fixed charges.

Dividends

The Board has proposed a final dividend of 18.6p per share, an increase of 22% on the prior year, giving a total ordinary dividend per share of 26.9p, a 20% increase on the prior year. This increase on the prior year, together with the return of cash to shareholders announced on 23 August 2012, 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 31 January 2013 to shareholders registered at the close of business on 4 January 2013. 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 £91m. The cash generative nature of both the High Street and Travel businesses is one of the key strengths of the Group.

£m	2012	2011
Operating profit	102	93
Depreciation, amortisation & amounts written off fixed assets	39	38
Working capital	-	3
Capital expenditure	(37)	(36)
Tax	(17)	(10)
Net interest received	-	-
Net provisions	(3)	-
Other items	7	8
Free cash flow	91	96

Cash flows from working capital were flat and capital expenditure was £37m in the year (analysed below). This was £1m higher than the previous year, and includes investment in new stores in both Travel and High Street together with on-going investment in technology and the existing estate. In the current year we expect capital expenditure to be around £37m. Net corporation tax paid was £17m, compared to £10m last year which included a tax refund relating to a payment on account of an unresolved item from prior years.

£m	2012	2011
New stores and store development	14	15
Refurbished stores	12	11
Systems	9	8
Other	2	2
Total	37	36

Net Cash

The movement in net cash is as follows:

£m	2012	2011
Opening net cash	41	56
Free cash flow	91	96
Equity dividends paid ¹	(31)	(29)
Pension deficit funding	(13)	(14)
Net purchase of own shares for employee share schemes	(2)	(12)
Return of cash to shareholders	(50)	(55)
Acquisition of British Bookshops and Stationers Limited	-	(1)
Closing net cash	36	41

¹ Dividends paid include 2012 interim and 2011 final dividends paid.

In addition to the £91m of free cash flow generated in the year, the Group has seen a net cash outflow of £46m in relation to non trading operations. This includes £31m of dividend payments, £13m pension funding and net ESOP trust purchases of £2m. During the year, the Group completed the £50m return of cash to shareholders by way of a share buyback programme. On 23 August 2012 the Board announced a further £50m return of cash to shareholders via a share buyback programme. As at 31 August 2012 net cash was £36m. The Group has a committed multi-currency revolving credit facility of £70m through to January 2016.

Balance Sheet

The Group had net assets of £149m at the end of the period (2011: £156m), reflecting the cash generated during the year and the £50m return of cash to shareholders through the share buyback.

£m	2012	2011
Goodwill and other intangible assets	54	56
Property plant and equipment	155	151
	209	207
Inventories	151	154
Payables less receivables	(203)	(201)
Working capital	(52)	(47)
Net current and deferred tax liability	(36)	(36)
Provisions	(7)	(9)
Operating assets employed	114	115
Net cash	36	41
Net assets excluding pension liability	150	156
Pension liability	(1)	-
Total net assets	149	156

Return on Capital Employed

Total capital employed and ROCE were as follows:

	Operating Capital Employed £m¹	ROCE² %	ROCE% with operating leases capitalised³
Travel	58	109	24
High Street	118	46	17
Retail	176	66	20
Unallocated central items	(62)		
Operating assets employed	114	89	20

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 81 per cent (18 per cent - after capitalised operating leases).

Pensions

Following the completion of the latest triennial valuation of the main defined benefit pension scheme, the WHSmith Pension Trust, at 31 March 2012, the actuarial deficit was £75m, compared to the previous revaluation in March 2009 of £113m – a reduction of £38m. The scheme is closed to new members and, from 2007, closed to defined benefit service accrual.

The WHSmith Pension Trust has an IAS 19 surplus of £113m at 31 August 2012 (2011 surplus: £69m) which the Group has not recognised. There is an actuarial deficit due to the different assumptions and calculation methodologies used compared to those under IAS 19. The IAS 19 pension deficit on the relatively small UNS defined benefit pension scheme was £1m (2011: £nil).

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, 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 (2011: £167m) (net of £4m of external rent receivable (2011: £6m)). The total future rental commitment at the balance sheet date amounted to £1,043m (2011: £1,087m) with the leases having an average life of six years. Although large, these commitments are characteristic of the retail sector and the risks associated with them are influenced mainly by the quality and location of the sites.

Contingent liabilities

The Group has contingent liabilities relating to reversionary property leases. Any such contingent liability which crystallises will be apportioned between the Group and Smiths News PLC in the ratio 65:35 pursuant to the terms of the Demerger Agreement (provided that the Smiths News PLC liability is limited to £5m in any 12 month period). We have estimated the Group's 65 per cent share of the future cumulative contingent rental commitment at approximately £18m (2011: £30m).

Principal risks and uncertainties

There are a number of potential risks and uncertainties that could have a material impact on the Group's financial performance and position. These include: economic, political, competitive and market risks; reliance on the WHSmith brand; key suppliers and supply chain management; store portfolio; business interruption; reliance on key personnel; treasury, financial and credit risk; and pensions and investment risk. A full description of these risks and our mitigating actions will be provided in the Annual Report and Accounts 2012.

This announcement 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 announcement should be construed as a profit forecast. We undertake no obligation to update any forward looking statements whether as a result of new information, future events or otherwise.

WH Smith PLC

Group Income Statement

For the year ended 31 August 2012

£m	Note	2012	2011
Continuing operations			
Revenue		1,243	1,273
Operating profit	2	102	93
Investment income	4	2	1
Finance costs	5	(2)	(1)
Profit before tax		102	93
Income tax expense	6	(18)	(20)
Profit for the year		84	73
Earnings per share			
Basic	7	64.6p	52.1p
Diluted	7	62.7p	51.4p
Non GAAP measures			
Equity dividends per share¹		26.9p	22.5p
Fixed charges cover	11	1.6x	1.5x

¹ Dividend per share is the final proposed dividend of 18.6p (2011: 15.3p) and the interim dividend of 8.3p (2011: 7.2p)

WH Smith PLC

Group Statement of Comprehensive Income

For the year ended 31 August 2012

£m	Note	2012	2011
Profit for the period		84	73
Other comprehensive income:			
Actuarial losses on defined benefit pension schemes	12	(16)	(14)
Exchange differences on translation of foreign operations		-	(1)
Other comprehensive loss for the period, net of tax		(16)	(15)
Total comprehensive income for the period		68	58

WH Smith PLC

Group Balance Sheet

As at 31 August 2012

£m	Note	2012	2011
Non-current assets			
Goodwill		32	32
Other intangible assets		22	24
Property, plant and equipment		155	151
Deferred tax assets		8	7
Trade and other receivables		4	4
		221	218
Current assets			
Inventories		151	154
Trade and other receivables		54	57
Current tax asset		5	7
Cash and cash equivalents	9	36	41
		246	259
Total assets		467	477
Current liabilities			
Trade and other payables		(246)	(247)
Current tax liabilities		(45)	(44)
Short-term provisions		(4)	(3)
		(295)	(294)
Non-current liabilities			
Retirement benefit obligation	12	(1)	-
Deferred tax liabilities		(4)	(6)
Long-term provisions		(3)	(6)
Other non-current liabilities		(15)	(15)
		(23)	(27)
Total liabilities		(318)	(321)
Total net assets		149	156
Total equity		149	156

WH Smith PLC

Group Balance Sheet

As at 31 August 2012 (continued)

£m	Note	2012	2011
Shareholders' equity			
Called up share capital		29	31
Share premium		3	2
Capital redemption reserve		8	6
Revaluation reserve		2	2
ESOP reserve		(22)	(25)
Hedging reserve		-	-
Translation reserve		(3)	(3)
Other reserve		(212)	(207)
Retained earnings		344	350
Total equity		149	156

The consolidated financial statements of WH Smith PLC, registered number 5202036, were approved by the Board of Directors and authorised for issue on 11 October 2012 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 2012

£m	Note	2012	2011
Net cash inflow from operating activities	10	115	118
Investing activities			
Interest received		-	-
Purchase of property, plant and equipment		(38)	(36)
Purchase of intangible assets		(5)	(5)
Proceeds on disposal of property, plant and equipment		6	5
Acquisition of business		-	(1)
Net cash outflow from investing activities		(37)	(37)
Financing activities			
Dividend paid		(31)	(29)
Purchase of own shares for cancellation		(50)	(55)
Purchase of own shares for employee share schemes		(2)	(12)
Repayments of obligations under finance leases		-	-
Net cash used in financing activities		(83)	(96)
Net decrease in cash and cash equivalents in year		(5)	(15)
Opening net cash and cash equivalents		41	56
Closing net cash and cash equivalents		36	41
Reconciliation of net cash flow to movement in net cash			
£m	Note	2012	2011
Net cash at beginning of the year		41	56
Decrease in cash and cash equivalents		(5)	(15)
Net cash at end of the year	9	36	41

WH Smith PLC

Group Statement of Changes in Equity

For the year ended 31 August 2012

£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 2011	33	6	2	(25)	(3)	(207)	350	156
Total comprehensive loss for the period	-	-	-	-	-	-	68	68
Recognition of share-based payments	-	-	-	-	-	-	7	7
Premium on issue of shares	1	-	-	-	-	-	-	1
Dividends paid	-	-	-	-	-	-	(31)	(31)
Employee share schemes	-	-	-	3	-	(5)	-	(2)
Purchase of own shares for cancellation	(2)	2	-	-	-	-	(50)	(50)
Balance at 31 August 2012	32	8	2	(22)	(3)	(212)	344	149
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

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 £5m (2011: £16m).

WH Smith PLC

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 2012 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 2011 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 24 (Revised)	Related Party Disclosures
IFRIC 14 (Revised)	Prepayments of a Minimum Funding Requirement (issued May 2010)
Annual Improvements to IFRS Amendments to IFRS 7	Financial Instruments: Disclosures - Transfers of Financial Assets

Going concern

The Group's business activities together with the factors that are likely to affect its future developments, performance and position are set out in the Financial Review. The Financial Review describes the Group's financial position, cash flows and borrowing facilities and also highlights the principal risks and uncertainties facing the Group.

The directors report that they have reviewed current performance and forecasts, combined with expenditure commitments, including capital expenditure, proposed dividends and borrowing facilities. After making enquiries, the directors have a reasonable expectation that the Group has adequate financial resources to continue its current operations, including contractual and commercial commitments for the foreseeable future. For these reasons, the going concern basis has been adopted in preparing the financial statements.

b) Preliminary announcement

The financial information contained within this preliminary announcement for the 12 months to 31 August 2012 and 12 months to 31 August 2011 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 2011 have been filed with the Registrar of Companies and those for the 12 months to 31 August 2012 will be filed following the Company's annual general meeting.

The auditors' reports on the accounts for both the 12 months to 31 August 2012 and 12 months to 31 August 2011 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 December 2012.

WH Smith PLC

2. Group operating profit

£m	2012	2011
Turnover	1,243	1,273
Cost of sales	(579)	(611)
Gross profit	664	662
Distribution costs ¹	(486)	(490)
Administrative expenses	(81)	(83)
Other income ¹	5	4
Group operating profit	102	93

¹ Other income is profit attributable to property and the sale of plant and equipment. During the period there was a £5m (2011: £2m) impairment charge for property, plant and equipment and other intangible assets included in distribution costs.

£m	2012	2011
Cost of inventories recognised as an expense	579	611
Write-down of inventories in the period	5	4
Depreciation and amounts written off property, plant and equipment	32	32
Amortisation and amounts written off intangible assets	7	6
Net operating lease charges		
- land and buildings	183	183
- equipment and vehicles	1	1
Other occupancy costs	65	62
Staff costs	191	198

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	2012	2011
Continuing operations:		
Travel	462	455
High Street	781	818
Group revenue	1,243	1,273

WH Smith PLC

3. Segmental analysis of results (continued)

b) Group results

£m	2012	2011
Continuing operations:		
Travel	63	57
High Street	54	52
Profit from trading operations	117	109
Unallocated costs	(15)	(16)
Group operating profit	102	93
Investment income	2	1
Finance costs	(2)	(1)
Income tax expense	(18)	(20)
Profit for the year	84	73

4. Investment income

£m	2012	2011
Net income on pension schemes (Note 12)	2	1
	2	1

5. Finance costs

£m	2012	2011
Interest payable on bank loans and overdrafts	1	-
Unwinding of discount on provisions	1	1
	2	1

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6. Income tax expense

£m	2012	2011
Tax on profit from continuing operations	34	28
<i>Standard rate of UK corporation tax 25.16% (2011: 27.16%)</i>		
Adjustment in respect of prior year UK corporation tax	(13)	(10)
Total current tax charge - continuing operations	21	18
Deferred tax – current year	(2)	-
Deferred tax – prior year	(1)	2
Tax on profit – continuing operations	18	20
<i>Effective tax rate on continuing activities</i>	<i>18%</i>	<i>21%</i>

Reconciliation of the taxation charge

£m	2012	2011
Tax on profit from continuing operations at standard rate of UK corporation tax 25.16% (2011: 27.16%)	26	25
Tax effect of items that are not deductible or not taxable in determining taxable profit	6	3
Adjustment in respect of prior years	(14)	(8)
Tax charge - continuing operations	18	20

The UK corporation tax rate fell to 24 per cent with effect from 1 April 2012 (previously 26 per cent). The rate of corporation tax will change from 24 per cent to 23 per cent with effect from 1 April 2013. 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 22 per cent.

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7. Earnings per share

a) Earnings

£m	2012	2011
Earnings attributable to shareholders	84	73

b) Basic and diluted earnings per share

Pence	2012	2011
Basic	64.6	52.1
Diluted	62.7	51.4

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	2012	2011
Weighted average shares in issue for earnings per share	130	140
Add weighted average number of ordinary shares under option	4	2
Weighted average ordinary shares for diluted earnings per share	134	142

8. Dividends

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

£m	2012	2011
Dividends		
Interim dividend of 8.3p per ordinary share (2011: 7.2p per ordinary share)	11	10
Final dividend of 15.3p per ordinary share (2011: 13.3p per ordinary share)	20	19
	31	29

The proposed dividend of 18.6p per share, amounting to a final dividend of £23m, is not included as a liability in these financial statements and, subject to shareholder approval, will be paid on 31 January 2013 to shareholders on the register at the close of business on 4 January 2013.

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9. Analysis of net cash

Movements in net cash can be analysed as follows:

£m	2011	Cash flow	2012
Cash and cash equivalents	41	(5)	36
Net cash	41	(5)	36

£m	2010	Cash flow	2011
Cash and cash equivalents	56	(15)	41
Net cash	56	(15)	41

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 2012 was £nil (2011: £nil).

10. Net cash inflow from operating activities

£m	2012	2011
Operating profit from continuing operations	102	93
Depreciation of property, plant and equipment	28	30
Impairment of property, plant and equipment	4	2
Amortisation of intangible assets	6	6
Impairment of intangible assets	1	-
Share-based payments	7	8
Decrease / (increase) in inventories	3	(3)
Decrease in receivables	3	-
(Decrease) / increase in payables	(6)	6
Pension funding	(13)	(14)
Income taxes paid	(17)	(10)
Charge to provisions	1	2
Cash spend against provisions	(4)	(2)
Net cash inflow from operating activities	115	118

WH Smith PLC

11. Fixed Charges Cover

£m	2012	2011
Net finance charges	-	-
Net operating lease rentals	184	184
Total fixed charges	184	184
Profit before tax	102	93
Profit before tax and fixed charges	286	277
Fixed charges cover - times	1.6x	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	2012	2011
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 Liability Driven Investment (LDI) policy where the assets in the investment fund were 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 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 2012 by independent actuaries using the projected unit credit method. Following this valuation, the deficit was £75m, and a revised deficit funding schedule of approximately £13m per annum (subject to indexation) over the following seven years was agreed with the Trustee. During the year, the Group made a contribution of £13m to the WHSmith Pension Trust (2011: £14m) in accordance with the previously agreed pension deficit funding schedule.

The amounts recognised in the balance sheet under IAS 19 in relation to this plan are as follows:

£m	2012	2011
Present value of the obligations	(776)	(716)
Fair value of plan assets	889	785
Surplus in the scheme	113	69
Amounts not recognised	(113)	(69)
Retirement benefit obligation recognised in the balance sheet	-	-

WH Smith PLC

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 £113m (2011: £69m) available on a reduction of future contributions is £nil (2011: £nil). As a result the Group has not recognised this IAS 19 surplus on the balance sheet.

The valuation of the defined benefit pension scheme used for the IAS 19 disclosures is based upon the most recent valuation. Scheme assets are stated at their market value at the relevant reporting date.

The principal long-term assumptions used in the IAS 19 valuation were:

%	2012	2011
Rate of increase in pension payments	2.72	3.52
Rate of increase in deferred pensions	1.82	2.62
Discount rate	4.20	5.37
RPI Inflation assumption	2.72	3.52
CPI Inflation assumption	1.82	2.62

A movement of 0.1% in either the discount rate or the inflation assumptions would result in a change to the scheme liabilities of approximately £15m.

The amounts recognised in the income statement were as follows:

£m	2012	2011
Current service cost	-	-
Interest cost	(38)	(37)
Expected return on scheme assets	40	38
	2	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	2012	2011
Actuarial gains	29	29
Amounts not recognised	(44)	(44)
	(15)	(15)

In addition, a £1m charge (2011: £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 £36m (2011: loss of £21m).

WH Smith PLC

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	2012	2011
At 1 September	(716)	(761)
Current service cost	-	-
Interest cost	(38)	(37)
Actuarial (losses) / gains	(48)	61
Benefits paid	26	21
At 31 August	(776)	(716)

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

£m	2012	2011
At 1 September	785	786
Expected return on scheme assets ¹	40	38
Actuarial gains / (losses)	77	(32)
Contributions from the sponsoring companies	13	14
Benefits paid	(26)	(21)
At 31 August	889	785

¹ The actual return on scheme assets was a gain of £117m (2011: gain of £7m)

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

£m	2012	2011
LDI financing portfolio	829	650
Hedging swaps	(28)	106
Equity call options	88	29
	889	785

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 2012 this was 3.60 per cent (2011: 4.57 per cent).

The mortality assumptions (in years) underlying the value of the accrued liabilities for both 2011 and 2012 are:

	2012		2011	
	Male	Female	Male	Female
Life expectancy at age 65				
Member currently aged 65	22.2	24.4	21.5	23.4
Member currently aged 45	23.5	25.9	23.4	25.2
Life expectancy at age 60				
Member currently aged 60	26.6	29.1	26.2	28.1
Member currently aged 45	27.8	30.4	27.7	29.6

WH Smith PLC

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	2012	2011	2010	2009	2008
Present value of defined benefit obligations	(776)	(716)	(761)	(717)	(662)
Fair value of scheme assets	889	785	786	743	793
Surplus / (deficit) in the scheme	113	69	25	26	131
Experience adjustments on scheme liabilities					
Amount (£m)	7	(8)	(2)	26	14
Percentage of scheme liabilities (%)	(1)	1	-	(4)	(2)
Experience adjustments on scheme assets					
Amounts (£m)	77	(32)	14	(80)	110
Percentage of scheme assets (%)	9	(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	2012	2011
Present value of the obligations	(5)	(4)
Fair value of plan assets	4	4
Retirement benefit obligation recognised in the balance sheet	(1)	-

During the year a £1m charge (2011: £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 2012 (2011: £3m).