15 October 2009

WH SMITH PLC
PRELIMINARY RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 AUGUST 2009

Strong profit performance and announcement of return of cash to shareholders

KEY POINTS

- Group profit before tax and exceptional items up 8% to £82m (2008: £76m)
  - Travel operating profit up 17% to £48m[1] (2008: £41m)
  - High Street operating profit up 4% to £49m[1] (2008: £47m)

- Total Group profit before tax[2] of £81m (2008: £76m)

- Underlying earnings per share[3] up 17% to 41.3p (2008: 35.3p). Earnings per share (including exceptional items)[4] up 15% to 40.6p (2008: 35.3p)

- Strong balance sheet and cash generation
  - Strong free cash flow[5] of £89m (2008: £63m)
  - Net funds of £45m versus net debt of £9m as at 31 August 2008

- Final dividend proposed of 11.3p, up 16% on the prior year. Full year ordinary dividend of 16.7p, up 17% on prior year

- Return of up to £35m of cash to shareholders through rolling share buyback programme announced today

- Group total sales down 1% with like-for-like (LFL) sales down 5%:
  - Travel total sales up 8% with LFL sales down 2%
  - High Street total sales down 5% with LFL sales down 6%, in line with our strategic plan

- Gross margin improved by 220 basis points year on year

- Further £14m of cost savings identified in High Street

- Travel continues to trade strongly and is well-positioned for recovery in its markets

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

“We have delivered another strong performance, with Group profit up 8% to £82m, despite challenging trading conditions. Operating performance was ahead of expectations in both our Travel and High Street divisions.

“WHSmith is a highly cash generative business and today we are announcing the return of up to £35m of cash to shareholders, together with a proposed final dividend increase of 16%. We continue to invest in the business where we believe we will create value for our shareholders.

“Whilst trading conditions are challenging, we have planned accordingly and the Group is well-positioned to benefit when consumer spending recovers.”

[1] Profit from trading operations is stated after directly attributable share-based payment and pension service charges and before central costs, exceptional items, interest and taxation
[2] Continuing and discontinued operations after exceptional items
[3] Profit after tax and before exceptional items – diluted
[4] EPS as per IAS 33 – diluted
[5] Net cash flow from operating activities adjusted for capital expenditure, pension deficit funding, tax refunds and net interest received

- Ends -

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WH Smith PLC

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WH Smith PLC's Preliminary Results 2009 are available at www.whsmithplc.co.uk. A copy of the Preliminary Results 2009 will shortly be available for inspection at the UK Listing Authority, 25 The North Colonnade, London E14 5HS.

FINANCIAL REVIEW

Group Summary

The Group generated profit before tax and exceptional items of £82m (2008: £76m), an increase of 8% on the prior year. Total Group profit before tax[1] was £81m (2008: £76m).

Underlying earnings per share[2] increased by 17% to 41.3p (2008: 35.3p), with earnings per share (including exceptional items)[3] of 40.6p (2008: 35.3p).

The Group has a strong balance sheet and is highly cash generative. Net funds were £45m versus net debt of £9m as at 31 August 2008. Group free cash flow[4] was £89m up from £63m in 2008.

The Board has proposed a final dividend of 11.3p per share, giving a total ordinary dividend per share of 16.7p, a 17% increase on the prior year. In addition, the Board today announces the return of up to £35m of cash to shareholders through a rolling share buyback programme. The proposed increase in final dividend, together with the return of cash to shareholders, reflects the cash generative nature of the Group and the Board's confidence in its future prospects.

Travel continued its strong performance, with operating profit[5] increasing by 17% to £48m despite softer passenger numbers. During the year the integration of new businesses was completed in line with our plan and a further 51 units were opened.

High Street operating profit[5] was £49m, up 4% on the prior year. We are continuing with our strategy to rebalance the mix of the business towards our core categories, reducing our presence in entertainment. We continue to optimise margins and maintain tight cost control.

Total Group sales were £1,340m (2008: £1,352m) with LFL sales down 5%. Travel sales grew by 8% to £448m, down 2% on a LFL basis. High Street sales were down 5% at £892m and down 6% on a LFL basis (excluding entertainment LFL sales were down 2%).

[1] Continuing and discontinued operations after exceptional items
[2] Profit after tax and before exceptional items – diluted
[3] EPS as per IAS 33 – diluted
[4] Net cash flow from operating activities adjusted for capital expenditure, pension deficit funding, tax refunds and net interest received
[5] Profit from trading operations is stated after directly attributable share-based payment and pension service charges and before central costs, exceptional items, interest and taxation

Trading Operations

Travel

Travel continued to deliver strong operating profit[1] growth, despite soft passenger numbers in Air, demonstrating the strength of the business model even in tough trading conditions. Operating profit[1] increased by 17% to £48m (2008: £41m), achieved as a result of increased sales combined with improved gross margin and tight cost control. The division is well-positioned to benefit when passenger numbers recover.

Total Travel sales grew by 8% driven by new business wins and recent acquisitions. Travel sales were down by 2% on a LFL basis with sales continuing to outperform passenger numbers. We have increased average transaction value by focusing on mix changes and improved promotional activity.

Gross margin increased by around 220bps during the period due to good category mix management and further buying improvements, resulting in more sales in higher margin categories such as confectionery and books.

We continue to make substantial progress with business development, opening 51 units in the year and successfully completing the integration of the prior year acquisitions of hospital units from UNS Group Limited and airport stores from Alpha Retail UK Limited. In addition, we renewed 18 contracts and completed 12 refits in the period.

We continue to develop opportunities for long term growth by extending existing contracts and also through the further development of the hospital channel, the development of a new format suitable for workplaces and three trials in international travel retail locations.

The Travel business now operates from 490 units, including motorway service area franchise units and coffee shops. 10 units were closed in the period primarily due to landlord redevelopment. Excluding motorway service area franchise units, Travel occupies 0.4m square feet (2008: 0.4m square feet).

High Street

High Street delivered an operating profit[1] of £49m (2008: £47m) despite the tough trading conditions. This was delivered through continuing to rebuild authority in our core categories, tightly controlled costs, optimising margins and delivering the retailing basics. Cash generation in the division continued to be strong as a result of efficient stock management and effective, considered capital investment.

High Street sales were down 5% and on a LFL basis down 6%, in line with our strategic plan. Excluding entertainment LFL sales were down 2%. Gross margin improved by around 230bps through rebalancing the mix of our business, better buying terms, improved sourcing and markdown management.

High Street delivered £15m of cost savings during the year. These were delivered from a number of areas of the business including variable costs associated with entertainment, renegotiating IT contracts and in-store efficiencies. A further £14m of cost savings have been identified over the next 3 years, making total targeted savings of £24m between 2010 and 2012.

The High Street business now operates from 565 stores, which occupy 3.0m square feet (2008: 3.0m square feet). We opened 9 new stores primarily in un-served catchments and closed 1 store during the period.

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

Category Performance

In Books, we have made further progress implementing our strategy to build on our authority as a popular book specialist. We saw good market share performance versus the general retail market with strong market shares in Kids books, including Stephanie Meyer's *Twilight*, and celebrity autobiographies such as Julie Walters' *That's Another Story* and Dawn French's *Dear Fatty*. Books LFL sales were down 4% while gross margin was up year on year. Range reviews and effective promotions continue to play an important part in this performance with a major range review in Kids Books delivering positive results and further successful promotions with third party partners such as McDonalds and *The Times*. In Travel, we have executed a strong promotional plan to support books performance, for example through more Book of the Week promotions and new promotional bays in high footfall locations. We continue to expand our portfolio of specialist bookstores in Air and now have 20 books-only units, up from 8 last year.

Stationery LFL sales were up 1%, outperforming the general stationery market. Gross margin was up as planned, driven by intra category mix as well as improved seasonal markdown management and continued increases in lower cost sourcing. Core sub-categories remain our focus and our share continues to be strong. Following the success of our trials of 'bolt on' ranges to core categories, we are rolling these out, for example a range of educational toys and games, which complements and builds on our success in Kids books. We had a strong Back to School period with extra promotional space and a strong customer offer supported by TV advertising.

News and Impulse LFL sales were down 2% year on year with an improvement in gross margin. The magazine market continues to be challenging, particularly for monthly magazines and partworks where we are traditionally strong. However, we have maintained our market share, supported by our focus on the strongly-growing bookazine category with an enhanced range of WHSmith-exclusive titles marking events such as the election of Barack Obama and the death of Michael Jackson. Impulse categories continued to grow during the year with some benefit following the closure of Woolworths.

In Entertainment, we continued with our strategy to reduce steadily our presence in this category, while continuing to provide a tailored convenience offer. As we do this we are optimising profitability. Entertainment LFL sales were down 35% which was driven by our strategy and also by supply chain issues in the category. Gross margins were lower year on year reflecting the competitiveness of the market. Our view of the long-term outlook for the entertainment market remains unchanged.

Group profit

The Group generated a profit before tax and exceptional items of £82m (2008: £76m), an increase of 8% on the prior year.

£m	2009	2008	Profit Growth %
Travel [1]	48	41	17%
High Street [1]	49	47	4%
Profit from trading operations [1]	97	88	10%
Unallocated central costs	(14)	(14)	
Operating profit [2]	83	74	12%
Net finance (charges) / income	(1)	2	
Profit before taxation [2]	82	76	8%

[1] Profit from trading operations stated after directly attributable defined benefit service charge and share-based payment costs and before central costs, exceptional items, interest and taxation
[2] Stated before exceptional items

Net Finance Charges

The results include net finance charges of £1m (2008: net finance income of £2m) due to lower cash balances following the £90m return of cash to shareholders and acquisitions in the prior year and lower deposit rates.

Exceptional Items

The Group has recognised a £1m exceptional charge before tax in relation to discontinued operations. A £4m exceptional charge was incurred arising from the crystallisation of reversionary property leases and a £3m exceptional credit was recognised following progress made on the winding up of the USA Travel business.

Fixed Charges Cover

Fixed charges, comprising property operating lease rentals and net finance charges, were covered 1.5 times (2008: 1.4 times) by profit before tax and fixed charges.

Dividends

The Board has proposed a final dividend of 11.3p per share, giving a total ordinary dividend per share of 16.7p, a 17% increase on the prior year. This increase on the prior year, together with the return of cash to shareholders announced today, reflects the cash generative nature of the Group and the Board's confidence in its future prospects. Subject to shareholder approval the dividend will be paid on 4 February 2010 to shareholders registered at the close of business on 8 January 2010. 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 £89m. The cash generative nature of the High Street and Travel businesses is one of the strengths of the Group.

£m	2009	2008
Operating profit[1]	83	74
Depreciation, amortisation & amounts written off fixed assets	41	42
Working capital	11	2
Capital expenditure	(28)	(39)
Tax	(23)	(21)
Net interest received	-	2
Net provisions	(1)	(3)
Other items	6	6
Free cash flow	**89**	**63**

[1] Stated before exceptional items

Cash inflows from working capital in the period were £11m due to the continued focus on working capital management, including the integration of the prior year acquisitions. The efficient management of payables and receivables has more than offset increased stock levels.

Capital expenditure was £28m in the year, a £11m decrease on the prior year. The prior year spend of £39m was higher than the Group's average capital expenditure due to the impact of the new business wins and acquisitions in the second half of last year. In 2009, we opened 51 new Travel units including Shannon Airport, Exeter Airport and Northwick Park Hospital, and 9 High Street stores including Uttoxeter, Leominster and Haverhill. We continue to invest in maintaining our retail properties and during the period we have undertaken refurbishments in both High Street and Travel stores. In the current year, we expect capital expenditure to be closer to the levels in earlier years at around £32m.

£m	2009	2008
New stores and store development	10	19
Refurbished stores	9	9
Systems	6	8
Other	3	3
Total	**28**	**39**

Net Funds

The movement in net funds position is as follows:

£m	2009	2008
Opening net (debt) / funds	(9)	64
Free cash flow	89	63
Equity dividends paid[1]	(23)	(21)
Pension deficit funding	(10)	(10)
Net purchase of own shares	(8)	(9)
Tax refund and associated interest received	6	15
Return of cash to shareholders[1]	-	(90)
Acquisitions and associated costs	-	(24)
Sale & leaseback and fixed asset disposal proceeds	-	3
Closing net funds	**45**	**(9)**

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

In addition to the £89m of free cash flow generated in the year, the Group has seen a net cash outflow of £35m in relation to non trading operations. This includes £23m of dividend payments, £10m pension funding in line with last year and a tax refund of £6m.

As at 31 August 2009, the Group had net funds of £45m with net cash of £47m. The Group has committed working capital facilities of £90m through to June 2011 which is expected to be sufficient to meet its needs in the foreseeable future.

Balance Sheet

The Group had net assets of £188m at the end of the period, an increase of £27m since 31 August 2008 reflecting the profit and cash generation of the businesses over the year.

£m	**2009**	**2008**
Goodwill and other intangible assets	56	55
Property plant and equipment	163	177
	219	232
Inventories	151	147
Payables less receivables	(192)	(177)
Working capital	(41)	(30)
Derivative financial asset	1	2
Net current and deferred tax liability	(26)	(26)
Provisions	(8)	(8)
Operating assets employed	**145**	**170**
Net funds	45	(9)
Net assets excluding pension liability	**190**	**161**
Pension liability	(2)	-
Total net assets	**188**	**161**

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	87%	22%
High Street	144	34%	15%
Retail	**199**	**49%**	**18%**
Unallocated central items	(54)		
Operating assets employed	**145**	**57%**	**17%**

[1] Net assets adjusted for net funds and retirement benefit obligations.
[2] Return on capital employed is calculated as the operating profit before exceptional items as a percentage of operating capital employed.
[3] Return on capital employed after capitalised net operating leases including internal rent is calculated as the adjusted profit as a percentage of operating assets after capitalising operating leases. Adjusted profit is stated after adding back the annual net rent and charging depreciation on the value of capitalised leases. The value of capitalised operating leases is based on the net present value of future rent commitments.

For the prior year, comparable ROCE was 44 per cent (17 per cent - after capitalised operating leases).

Pensions

Following the completion of the triennial valuation of the main defined benefit pension scheme, the WHSmith Pension Trust, a revised deficit funding schedule of around £11m per annum (subject to indexation) has been agreed for the next 10 years. The scheme had an actuarial deficit of £113m as at 31 March 2009 with the increase from the previous valuation mainly due to changes in mortality assumptions. The LDI structure continues to perform well. The scheme is closed to new members and, from 2007, closed to defined benefit service accrual.

The Group's IAS 19 pension deficit of £2m relates to the relatively small UNS defined benefit pension scheme. The IAS 19 deficit on the WHSmith Pension Trust at 31 August 2009 was £nil. There is an actuarial deficit due to the different assumptions and calculation methodologies used compared to those under IAS 19.

Operating leases

The Group's stores are held mainly under operating leases that are not capitalised and therefore are not included as debt for accounting purposes. The High Street leases are on standard 'institutional' lease terms, typically with a 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 £160m (2008: £151m) (net of £7m of external rent receivable (2008: £8m)). The total future rental commitment at the balance sheet date amounted to £1,039m (2008: £900m) with the leases having an average life of six years. Although large, these commitments are characteristic of the retail sector and the risks associated with them are influenced mainly by the quality and location of the sites.

Contingent liabilities

The Group has contingent liabilities relating to reversionary property leases. Any such contingent liability which crystallises will be apportioned between the Group and Smiths News PLC in the ratio 65:35 pursuant to the terms of the Demerger Agreement (provided that the Smiths News PLC liability is limited to £5m in any 12 month period). We have estimated the Group's 65 per cent share of the future cumulative rental commitment at approximately £50m (2008: £64m).

INTERIM MANAGEMENT STATEMENT

The Group will issue its Interim Management Statement on 12 November 2009.

WH Smith PLC

Group Income Statement
For the year ended 31 August 2009

£m	Note	2009 Before exceptional items	2009 Exceptional items	2009 Total	2008 Before exceptional items	2008 Exceptional items	2008 Total
Continuing operations							
Revenue		1,340	-	1,340	1,352	-	1,352
Operating profit	2	**83**	**-**	**83**	**74**	**-**	**74**
Investment income	3	1	-	1	5	-	5
Finance costs	4	(2)	-	(2)	(3)	-	(3)
Profit before tax		**82**	**-**	**82**	**76**	**-**	**76**
Income tax expense	5	(18)	-	(18)	(17)	-	(17)
Profit after tax from continuing operations		**64**	**-**	**64**	**59**	**-**	**59**
Loss for the year from discontinued operations		-	(1)	(1)	-	-	**-**
Profit for the year		**64**	**(1)**	**63**	**59**	**-**	**59**
Earnings per share[1]							
Basic – continuing operations	6			42.7p			36.4p
Diluted – continuing operations	6			41.3p			35.3p
Basic	6			42.0p			36.4p
Diluted	6			40.6p			35.3p
Non GAAP measures							
Underlying earnings per share[2]							
Basic – continuing operations	6			42.7p			36.4p
Diluted - continuing operations	6			41.3p			35.3p
Basic	6			42.7p			36.4p
Diluted	6			41.3p			35.3p
Equity dividends per share[3]				16.7p			14.3p
Fixed charges cover	10			1.5x			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 11.3p (2008: 9.7p) and the interim dividend of 5.4p (2008: 4.6p). Prior year excludes the special dividend of 33p per ordinary share paid on 29 February 2008

WH Smith PLC

Group Balance Sheet
As at 31 August 2009

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

WH Smith PLC

Group Balance Sheet
As at 31 August 2009 (continued)

£m	2009	2008
Shareholders' equity		
Called up share capital	35	35
Capital redemption reserve	2	2
Revaluation reserve	2	2
ESOP reserve	(28)	(28)
Hedging reserve	1	2
Translation reserve	(2)	(2)
Other reserve	(187)	(179)
Retained earnings	365	329
Total equity	**188**	**161**

The consolidated financial statements of WH Smith PLC, registered number 5202036, were approved by the Board of Directors and authorised for issue on 15 October 2009 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 2009

£m	Note	2009	2008
Net cash inflow from operating activities	9	**113**	**104**
Investing activities			
Interest received		1	4
Proceeds on disposal of property, plant and equipment		-	3
Acquisition of businesses		-	(24)
Purchase of property, plant and equipment		(23)	(35)
Purchase of intangible assets		(5)	(4)
Net cash outflow from investing activities		**(27)**	**(56)**
Financing activities			
Interest paid		(1)	(1)
Dividend paid		(23)	(78)
Purchase of own shares for cancellation		-	(33)
Purchase of own shares for employee share schemes		(8)	(9)
Proceeds from borrowings		-	25
Repayments of borrowings		(25)	(9)
Repayments of obligations under finance leases		(4)	(3)
Net cash used in financing activities		**(61)**	**(108)**
Net increase / (decrease) in cash and cash equivalents in year		**25**	**(60)**
Opening net cash and cash equivalents		22	82
Closing net cash and cash equivalents		**47**	**22**

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

£m	Note	2009	2008
Net (debt) / funds at beginning of the year		**(9)**	**64**
Increase / (decrease) in cash and cash equivalents		25	(60)
Decrease / (increase) in debt		25	(16)
Net movement in finance leases		4	3
Net funds / (debt) at end of the year	8	**45**	**(9)**

WH Smith PLC

Group Statement of Recognised Income and Expense
For the year ended 31 August 2009

£m	2009	2008
Actuarial losses on defined benefit pension schemes (Note 11)	(11)	(10)
Tax on items taken directly to equity		
- deferred tax	-	1
Net expense recognised directly in equity	**(11)**	**(9)**
Profit for the year	**63**	**59**
Total recognised income and expense for the year	**52**	**50**

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

WH Smith PLC

Group Reconciliation of Movements in Equity

For the year ended 31 August 2009

£m	Share capital	Capital redemption reserves	Revaluation reserve	ESOP reserve	Hedging and translation reserves	Other Reserve[1]	Retained earnings	Total
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 1 September 2008	**35**	**2**	**2**	**(28)**	**-**	**(179)**	**329**	**161**
Total recognised income and expense for the year	-	-	-	-	-	-	52	**52**
Current tax on items taken directly to equity	-	-	-	-	-	-	1	**1**
Recognition of share-based payments	-	-	-	-	-	-	6	**6**
Dividends paid	-	-	-	-	-	-	(23)	**(23)**
Employee share schemes	-	-	-	-	-	(8)	-	**(8)**
Mark to market valuation	-	-	-	-	(1)	-	-	**(1)**
Balance at 31 August 2009	**35**	**2**	**2**	**(28)**	**(1)**	**(187)**	**365**	**188**

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

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 2009 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 2008.

b) Preliminary announcement

The financial information contained within this preliminary announcement for the 12 months to 31 August 2009 and 12 months to 31 August 2008 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 2008 have been filed with the Registrar of Companies and those for the 12 months to 31 August 2009 will be filed following the Company's annual general meeting.

The auditors' reports on the accounts for the 12 months to 31 August 2009 were unqualified and did not include a statement under Section 498 (2) or (3) of the Companies Act 2006. The auditors' reports on the accounts for the 12 months to 31 August 2008 were unqualified and did not include a statement under Section 237(2) or (3) of the Companies Act 1985.

The Annual Report and Accounts will be available for shareholders in November 2009.

2. Group operating profit

£m	2009	2008
Turnover	**1,340**	**1,352**
Cost of sales	(685)	(720)
Gross profit	**655**	**632**
Distribution costs[1]	(496)	(479)
Administrative expenses	(81)	(84)
Other income [1]	5	5
Group operating profit	**83**	**74**

[1] Other income is profit attributable to property and the sale of plant and equipment. During the period there was a £3m impairment charge for property, plant and equipment and other intangible assets included in distribution costs (2008: £2m).

£m	2009	2008
Cost of inventories recognised as an expense	685	720
Write-down of inventories in the period	8	5
Depreciation and amounts written off property, plant and equipment	37	35
Amortisation and amounts written off intangible assets	4	7
Net operating lease charges		
- land and buildings	180	170
- equipment and vehicles	-	1
Other occupancy costs	58	55
Staff costs	202	194

3. Investment income

£m	2009	2008
Interest on bank deposits	1	4
Interest from prior period tax overpayments	-	1
	1	**5**

4. Finance costs

£m	2009	2008
Interest payable on bank loans and overdrafts	1	1
Net charge on pension schemes (Note 11)	1	-
Unwinding of discount on provisions	-	1
Interest on obligations under finance leases	-	1
	2	**3**

5. Income tax expense

£m	2009	2008
Tax on profit from continuing operations	22	22
Blended standard rate of UK corporation tax 28% (2008: 29.17%)		
Adjustment in respect of prior year UK corporation tax	(4)	(8)
Total current tax charge – continuing operations	**18**	**14**
Deferred tax – current year	-	3
Tax on profit – continuing operations	**18**	**17**
Effective tax rate - continuing activities	*22%*	*23%*

Reconciliation of the taxation charge

£m	2009	2008
Tax on profit from continuing operations at standard rate of UK corporation tax 28% (2008: 29.17%)	23	22
Tax effect of items that are not deductible or not taxable in determining taxable profit	(1)	2
Tax rate differential	-	1
Adjustment in respect of prior years	(4)	(8)
Tax charge – continuing operations	**18**	**17**

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

6. Earnings per share

a) Earnings

£m	2009 Continuing	2009 Discontinued	2009 Total	2008 Continuing	2008 Discontinued	2008 Total
Underlying earnings attributable to shareholders	64	-	**64**	59	-	**59**
Exceptional items net of related taxation	-	(1)	**(1)**	-	-	**-**
Earnings attributable to shareholders	64	(1)	**63**	59	-	**59**

b) Basic earnings per share

Pence	2009 Continuing	2009 Discontinued	2009 Total	2008 Continuing	2008 Discontinued	2008 Total
Underlying earnings per share (note i)	42.7	-	**42.7**	36.4	-	**36.4**
Exceptional items net of taxation	-	(0.7)	**(0.7)**	-	-	**-**
Earnings per share (note ii)	42.7	(0.7)	**42.0**	36.4	-	**36.4**

i) 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	2009 Continuing	2009 Discontinued	2009 Total	2008 Continuing	2008 Discontinued	2008 Total
Underlying earnings per share (note i)	41.3	-	**41.3**	35.3	-	**35.3**
Exceptional items net of taxation	-	(0.7)	**(0.7)**	-	-	**-**
Earnings per share (note ii)	41.3	(0.7)	**40.6**	35.3	-	**35.3**

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.

d) Weighted average share capital

Millions	2009	2008
Weighted average shares in issue for earnings per share	150	162
Add weighted average number of ordinary shares under option	5	5
Weighted average ordinary shares for diluted earnings per share	**155**	**167**

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.

7. Dividends

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

£m	2009	2008
Dividends		
Interim of 5.4p per ordinary share (2008: 4.6p per ordinary share)	8	7
Final of 9.7p per ordinary share (2008: 8.1p per ordinary share)	15	14
Special interim dividend per ordinary share of nil pence (2008: 33p)	-	57
	23	**78**

The proposed dividend of 11.3p per share is not included as a liability in these financial statements and, subject to shareholder approval, will be paid on 4 February 2010 to shareholders on the register at the close of business on 8 January 2010.

8. Analysis of net funds / (debt)

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

£m	2008	Cash flow	Non-cash	2009
Cash and cash equivalents	22	25	-	47
Debt				
- Revolving credit facility	(25)	25	-	-
Obligations under finance leases	(6)	4	-	(2)
Net (debt) / funds	**(9)**	**54**	**-**	**45**

£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)**

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 2009, floating rate debt comprised the Group's utilisation of £nil (2008: £25m) 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 60 basis points. During the prior 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.

9. Net cash inflow from operating activities

£m	2009	2008
Operating profit from continuing operations	**83**	**74**
Pension funding	(10)	(10)
Depreciation of property, plant and equipment	34	33
Impairment of property, plant and equipment	3	2
Amortisation of intangible assets	4	6
Impairment of intangible assets	-	1
Share-based payments	6	6
Increase in inventories	(4)	(3)
Decrease / (increase) in receivables	10	(10)
Increase in payables	5	15
Income taxes paid	(17)	(7)
Cash spend against provisions	(1)	(3)
Net cash inflow from operating activities	**113**	**104**

10. Fixed Charges Cover

£m	2009	2008
Net finance charges / (income)	1	(2)
Net operating lease rentals	180	171
Total fixed charges	**181**	**169**
Profit before tax and exceptional items	**82**	**76**
Profit before tax, exceptional items and fixed charges	**263**	**245**
Fixed charges cover - times	**1.5x**	**1.4x**

11. 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 11 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	2009	2008
WHSmith Pension Trust	-	-
United News Shops Retirement Benefits Scheme	(2)	-
Retirement benefit obligation recognised in the balance sheet	**(2)**	**-**

11. Retirement benefit obligation (continued)

a) Defined benefit pension schemes

i) The WHSmith Pension Trust

The WHSmith Pension Trust was closed to defined benefit service accrual on 2 April 2007 and has been closed to new members since 1996. The WHSmith Pension Trust is independent of the Group and is administered by a Trustee. During the year, the Group made a contribution of £10m to the WHSmith Pension Trust (2008: £10m) in accordance with the agreed pension deficit funding schedule. In September 2005, the Pension Trust Trustee adopted a new investment policy. The assets in the investment fund were restructured and 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. A revised deficit funding schedule of £11m (subject to indexation) over the next 10 years has been agreed with the Trustee.

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

£m	2009	2008
Present value of the obligations	(717)	(662)
Fair value of plan assets	743	793
Surplus in the scheme	**26**	**131**
Amounts not recognised	**(26)**	**(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 £26m (2008: £131m) available on a reduction of future contributions is £nil (2008: £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 actuarial valuation were:

%	2009	2008
Rate of increase in pension payments and deferred pensions	3.48	4.07
Discount rate	5.29	6.25
Inflation assumptions	3.48	4.07

The amounts recognised in the income statement were as follows:

£m	2009	2008
Current service cost	-	-
Interest cost	(41)	(36)
Expected return on scheme assets	40	36
	(1)	**-**

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

11. Retirement benefit obligation (continued)

a) Defined benefit pension schemes (continued)

i) The WHSmith Pension Trust (continued)

Total income / (expense) recognised in the Statement of Recognised Income and Expense ("SORIE"):

£m	2009	2008
Actuarial (losses) / gains	(114)	121
Amounts not recognised	105	(131)
	(9)	**(10)**

In addition, a £2m charge has been recognised in the SORIE in relation to actuarial losses in the year on the United News Shops Retirement Benefits Scheme.

The total cumulative actuarial gain recognised in the SORIE since the 'sectionalisation' of the scheme on demerger from Smith News PLC on 31 August 2006 is £4m (2008: gain of £13m).

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

£m	2009	2008
At 1 September	(662)	(657)
Current service cost	-	-
Interest cost	(41)	(36)
Actuarial (losses) / gains	(35)	11
Benefits paid	21	20
At 31 August	**(717)**	**(662)**

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

£m	2009	2008
At 1 September	793	657
Expected return on scheme assets[1]	40	36
Actuarial (losses) / gains	(79)	110
Contributions from the sponsoring companies	10	10
Benefits paid	(21)	(20)
At 31 August	**743**	**793**

[1] The actual return on scheme assets was a loss of £39m (2008: gain of £146m)

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

£m	2009	2008
Liquid cash funds	732	653
Inflation swaps	(32)	112
Equity call options	43	28
	743	**793**

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 2009 this was 5.12 per cent (2008: 5.10 per cent).

11. Retirement benefit obligation (continued)

a) Defined benefit pension schemes (continued)

i) The WHSmith Pension Trust (continued)

The mortality assumptions (in years) underlying the value of the accrued liabilities for both 2008 and 2009 are:

	2009		2008	
	Male	**Female**	**Male**	**Female**
Life expectancy at age 65				
Member currently aged 65	21.3	23.2	20.1	22.9
Member currently aged 45	23.2	25.0	21.4	24.1
Life expectancy at age 60				
Member currently aged 60	26.0	27.9	24.9	27.7
Member currently aged 45	27.5	29.4	25.9	28.7

The five year history of experience adjustments is as follows:

£m	2009	2008	2007	2006	2005
Present value of defined benefit obligations	(717)	(662)	(657)	(674)	(651)
Fair value of scheme assets	743	793	657	608	598
Surplus / (deficit) in the scheme	**26**	**131**	**-**	**(66)**	**(53)**
Experience adjustments on scheme liabilities					
Amount (£m)	26	14	22	(7)	(75)
Percentage of scheme liabilities (%)	(4)	(2)	(3)	1	11
Experience adjustments on scheme assets					
Amounts (£m)	(80)	110	1	(17)	48
Percentage of scheme assets (%)	(11)	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 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	2009	2008
Present value of the obligations	(5)	(4)
Fair value of plan assets	3	4
Retirement benefit obligation recognised in the balance sheet	**(2)**	**-**

During the year a £2m charge has been recognised in the statement of recognised income and expense in relation to actuarial losses in the year on the United News Shops Retirement Benefits Scheme.

11. Retirement benefit obligation (continued)

b) Defined contribution pension scheme

The pension cost charged to income for the Group's defined contribution schemes amounted to £3m for the year ended 31 August 2009 (2008: £3m).

12. Post balance sheet event

On 15 October 2009, the Company announced its intention to return up to £35m of cash to shareholders through a rolling share buyback programme.