WH Smith PLC

Annual report and accounts 2012

WH Smith PLC is one of the UK's leading retailers and is made up of two core businesses – Travel and High Street. Our goal is to be Britain's most popular stationer, bookseller and newsagent.

About us

> WH Smith PLC is one of the UK's leading retailers and is made up of two core businesses – Travel and High Street.

> WHSmith has a presence in a wide range of locations including high streets, shopping centres, airports, train stations, motorway service areas, hospitals and workplaces, primarily in the UK, and with a growing international business.

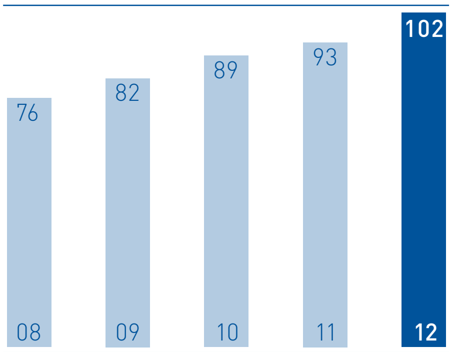
> WHSmith reaches customers online via www.whsmith.co.uk and its specialist personalised greetings cards and gifts websites, www.funkypigeon.com and www.funkypigeon.ie.

> Overall WHSmith employs approximately 16,000 staff, primarily in the UK.

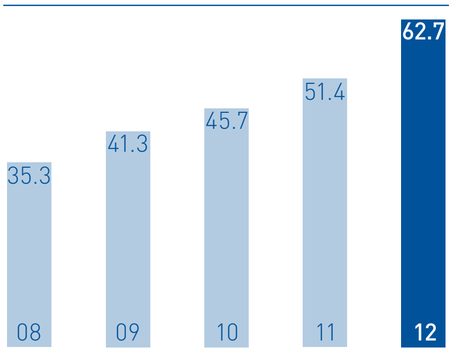
> WH Smith PLC is listed on the London Stock Exchange (SMWH) and is included in the FTSE 250 Index.

> A commitment to the principles of corporate responsibility is at the heart of WHSmith. We continue to be ranked highly in the Business in the Community's Corporate Responsibility Index in recognition of our performance.

Profit before exceptional items and taxation £m



Underlying diluted earnings per share[1] p



[1] Profit after tax and before exceptional items – diluted.

Find out more at www.whsmithplc.co.uk

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Group at a glance

WH Smith PLC is one of the UK's leading retailers and is made up of two core businesses – Travel and High Street.

Travel

Travel sells a tailored range of Newspapers, Magazines, Books and Impulse products for people on the move and a broader convenience range in hospitals and workplaces.

Our objective is to grow the business by improving our customer offer, winning new contracts, and by developing new formats and channels.

The business operates from 619 units (2011: 561 units) mainly in airports, railway stations, motorway service areas, hospitals and workplaces. 62 units (2011: 32 units) are outside the UK.

Units range from 90 square feet to more than 6,000 square feet, with a total of 0.5m square feet of selling space, excluding motorway service areas, as at 31 August 2012 (2011: 0.5m square feet).

Highlights

Sales	Profit[1]	Stores	Average store size sq ft
£462m	£63m	619	1,000
(2011: £455m)	(2011: £57m)	(2011: 561)	(2011: 1,000 sq ft)

During the year

> Travel delivered another good profit[1] performance, up 11% year on year, with total sales up 2%.

> We made good progress in Travel's growing international business with over 100 units now open or won.

[1] High Street and Travel trading profit are stated after directly attributable share-based payment and pension service charges and before allocation of central costs, interest and taxation. See Note 2 on page 52.

High Street

High Street sells a wide range of Stationery, Books, Newspapers, Magazines and Impulse products, as well as a small range of Entertainment products.

Our objective is to be Britain's most popular stationer, bookseller and newsagent.

The business operates from 618 High Street stores (2011: 612 stores), located in almost all of the UK's major high streets.

Stores range in size from 777 square feet to more than 23,000 square feet, with a total of 3.0m square feet of selling space as at 31 August 2012 (2011: 3.1m square feet).

Highlights

Sales	Profit[1]	Stores	Average store size sq ft
£781m	£54m	618	5,000
(2011: £818m)	(2011: £52m)	(2011: 612)	(2011: 5,000 sq ft)

During the year

> High Street delivered a resilient profit[1] performance, up 4% year on year, as it continued with its strategy to focus on its core categories.

> We delivered £17m of cost savings during the year from across the business.

[1] High Street and Travel trading profit are stated after directly attributable share-based payment and pension service charges and before allocation of central costs, interest and taxation. See Note 2 on page 52.

Chairman's statement

We continue with our strategy to create shareholder value, by growing our Travel business, both in the UK and internationally, and strengthening our core categories across the High Street business.

Walker Boyd
Chairman

I am pleased to report another year of good performance across the Group in challenging economic conditions. We expected the economic environment to remain challenging and we planned accordingly, and as a consequence, the Group has once again demonstrated its resilience and ability to deliver in a tough trading climate. We continue with our strategy to create shareholder value, by growing our Travel business, both in the UK and internationally, and strengthening our core categories across the High Street business.

Performance

The Group remains highly cash generative with a strong balance sheet as we continue to focus on profitability and cash generation across both businesses. Total revenue for the Group was down two per cent at £1.24bn, with like-for-like sales down five per cent and strong free cash flow[1] of £91m. Group profit before tax was 10 per cent ahead of last year at £102m. This performance has led the Board to recommend a final dividend of 18.6p. During the year we have returned £50m of cash to shareholders via a share buyback. On 23 August 2012, the Company also announced its intention to instigate a further share buyback programme of up to £50m.

The Travel business has delivered another good performance with further profit growth. Despite the economic climate and soft passenger numbers we have continued to grow, demonstrating the strength of the division's business model. We have made further good progress in both our established and developing channels and continue to identify opportunities for growth in the UK, opening 35 new units during the 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 have made further good progress in a number of regions, including Australia, India, South-East Asia and the Middle East and we now have 62 units open in international locations, including airports, railway stations, hospitals and shopping malls. Around two-thirds of these are operated as franchises.

[1] Net cash flow from operating activities adjusted for capital expenditure, pension deficit funding, and net interest received. See Group cash flow statement and Note 22 on page 65.

High Street has delivered another robust performance with further profit growth, in what continues to be a challenging trading environment. We continue to make progress with our strategy to build authority in our core categories, whilst rebalancing the mix of our business and reducing our presence in Entertainment. We saw further improvement in gross margin during the year and successful cost control continues with £17m of savings delivered during the year, £5m ahead of our original plan, from across the business. Cash generation in the division continues to be strong and we continue to invest in the High Street estate and opened 12 new stores during the year.

People

Without the ongoing loyalty and support of our management teams, staff and suppliers, we could not have achieved these results. My sincere thanks go to all our staff across the Group; in these challenging conditions we rely more than ever on their continued commitment, and it is their hard work and dedication that has enabled us to deliver this set of results.

Sustainability

The difficult economic climate has not lessened our commitment to good corporate responsibility (CR). In fact, it has increased our focus on those environmental efficiencies which can also help to cut operational costs, and on building strong and mutually beneficial relationships in the communities in which we operate. In the year, we have made notable improvements in energy consumption through the roll-out of a programme of lighting upgrades across our High Street estate, cutting our greenhouse gas emissions and reducing costs at the same time. We regularly benchmark our CR performance against our peers and were pleased to continue to be awarded the Platinum ranking in the Business in the Community CR Index.

Management changes

Following the announcement that Kate Swann will, after nine years, step down as Chief Executive of the Company, the Board would like to thank Kate for her outstanding contribution to WHSmith. The Board is particularly grateful to her for her vision, dedication and leadership which has seen WHSmith grow from strength to strength and deliver exceptional shareholder value. She has built an excellent management team and has put in place a robust and proven strategy which will continue to deliver for all our stakeholders. We wish her well for the future.

My sincere thanks go to all staff across the Group; in these challenging conditions we rely more than ever on their continued commitment.

I am delighted that Steve Clarke, Managing Director of the High Street business, will be Kate's successor. Steve has been instrumental in the development and execution of our successful strategy that has led to our outstanding performance. Steve has the qualities and experience to lead the Company and continue to deliver superior shareholder returns over the years to come. He will be ably supported by Robert Moorhead in his new role as Group Finance Director and Chief Operating Officer and by the rest of the Company's senior team.

Jeff Harris, who had served as a non-executive director, retired from the Board on 10 July 2012. On behalf of the Board, I would like to thank Jeff for his valued contribution to the Group.

Whilst we believe that the Group is well-positioned for the year ahead, we expect the economic environment to remain challenging and we therefore remain extremely focused on implementing our strategy.

Walker Boyd
Chairman

11 October 2012

Directors' report and business review

This Annual Report has been prepared for, and only for, the members of the Company, as a body, and no other persons. The Company, its directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. By their nature, the statements concerning the risks and uncertainties facing the Group in this Annual Report involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report and the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report should be construed as a profit forecast.

Principal activities

The Company, one of the UK's leading retail groups, is made up of two core businesses – Travel and High Street. Travel sells a tailored range of Newspapers, Magazines, Books and Impulse products in airports, train stations, motorway service areas, hospitals and workplaces, primarily in the UK; and High Street sells a wide selection of Stationery, Books, Newspapers, Magazines and Impulse products and a small range of Entertainment products.

WHSmith's outlets are frequently the first choice for people buying our products on the high street and we are a trusted convenience retailer for customers at travel locations. We have an extensive and growing store portfolio operating from 619 Travel units (including franchise units) and 618 High Street stores, with leading positions in Stationery, Books and Magazines. Overall, WHSmith employs approximately 16,000 staff, primarily in the UK.

WHSmith also reaches customers online 24 hours a day via www.whsmith.co.uk and its specialist personalised greetings cards and gift websites, www.funkypigeon.com and www.funkypigeon.ie

The Company is listed on the London Stock Exchange (SMWH) and is included in the FTSE 250 Index. More information about the business is available at www.whsmithplc.co.uk.

Business objectives and strategies

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

We aim to improve the Company's profitability and cash flow generation, delivering sustainable returns to shareholders. We believe that a concentration on these factors will be reflected in a total shareholder return that compares well with our peer group of equivalent listed companies. Since 2007 we will have returned over £450m[1] of cash to shareholders as part of our long-term strategy to create value for shareholders.

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

Travel is focused on delivering value to shareholders through organic growth in its existing outlets, securing new contracts, trialling new formats, increasing average transaction value and making improvements to trading efficiency.

The High Street plan concentrates on building on our authority in core categories, optimising margins, controlling costs and ensuring we deliver the retail basics. High Street continues to make significant progress in the delivery of its plan, despite the current economic climate.

We aim to act responsibly towards all our stakeholders, including customers, suppliers, business partners, employees and the communities in which we operate. Our annual Corporate Responsibility Report is available at www.whsmithplc.co.uk/cr, with a summary of our approach on pages 19 and 20 of this report.

[1] Includes proposed final dividend of 18.6p and £50m share buyback announced on 23 August 2012.

Chief Executive's review

The Group has a strong and consistent record of both profit growth and cash generation.

Kate Swann
Group Chief Executive

This year we have delivered a strong profit performance across the Group, despite the continuation of a challenging economic environment for both businesses. In these conditions we continue to manage the business tightly and invest in new opportunities, to ensure we are well-positioned for future growth. Both businesses have different strategies, but they both continue to deliver good cash generation. Both Travel and High Street delivered further good profit growth for the eighth consecutive year.

The Group remains highly cash generative and has a strong balance sheet. This strong position enabled us to announce on 23 August 2012 our intention to return up to £50m of cash to shareholders via a share buyback programme. We are recommending a final dividend of 18.6p, an increase of 22 per cent, making a full year dividend of 26.9p, an increase of 20 per cent on last year. Since the 2007 financial year we will have returned £450m[1] to shareholders, well over half the current market value of the Group. Going forward, the cash generative nature of the Group will continue to be a key driver of shareholder value.

The Group has a strong and consistent record of profit growth and this profit performance once again demonstrates the Group's relative resilience in the current climate. In Travel, our turnover-related rent model gives us a partial profit shield when sales are tough. In High Street our average transaction value is relatively low which means the business is less impacted than higher ticket retailers in times of economic uncertainty. As a Group we remain well-positioned for future growth when the economy improves.

Group summary

The Group generated profit before tax of £102m (2011: £93m), an increase of 10 per cent on the prior year. Group profit from trading operations[2] increased seven per cent on the prior year to £117m.

Total Group sales were £1,243m (2011: £1,273m) with like-for-like sales down five per cent. Travel sales grew by two per cent to £462m, down three per cent on a like-for-like basis. High Street sales were down five per cent at £781m and also down five per cent on a like-for-like basis.

Travel delivered another good performance, with trading profit[2] increasing by 11 per cent to £63m 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 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 101 units either open or won in international locations. The business is well placed for recovery when the economy improves and passenger numbers increase.

High Street delivered a resilient performance in challenging trading conditions, with trading profit[2] of £54m, up four per cent on the prior year. 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 and we have identified an additional £12m of savings, making a total target of £25m of cost savings over the next three years.

Earnings per share[3] increased by 22 per cent 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 per cent to 18 per cent.

The Group remains highly cash generative and has a strong balance sheet. Net cash was £36m at 31 August 2012, with a Group free cash flow[4] of £91m (2011: £96m). The Group has a committed multicurrency 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.

[1] Includes proposed final dividend of 18.6p and £50m share buyback announced on 23 August 2012.
[2] 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 2 on page 52.
[3] Diluted.
[4] Net cash flow from operating activities adjusted for capital expenditure, pension deficit funding and net interest received. See Group cash flow statement on page 45 and Note 22 on page 65.

Review of operations

Travel

The Travel business is focused on delivering value to shareholders through organic growth in its existing outlets, securing new contracts, trialling new formats, increasing average transaction value and making improvements to trading efficiency.

Nature of business and markets

The Travel business trades under the same brand as the High Street business and operates 619 units, mainly in airports, railway stations, motorway service areas, hospitals and workplaces, primarily in the UK, with 62 units in international locations. Of the 619 units, 159 are operated under franchise agreements. Travel stores sell a more tailored range of products than High Street stores to cater for people on the move or in need of a convenience offer. Travel's typical customer has less time to browse than the High Street customer and is more interested in reading materials for a journey as well as purchasing food, drink and confectionery. Consequently, there is a limited demand for stationery and entertainment products and the stock and layout of each Travel store reflects this.

Due to their location and convenience nature, Travel stores are, on average, significantly smaller than those in the High Street portfolio. At 31 August 2012, Travel operated from a total of 0.5m square feet of selling space, with units ranging in size from 90 square feet to more than 6,000 square feet. Of the 619 Travel units, 147 are in airports, 124 in railway stations, 121 in motorway service areas (most of which are franchise units), 114 in hospitals and 51 in locations such as bus stations, workplaces and also our Funky Pigeon stores. Travel now operates from 62 international units in Europe, the Middle East, Australia, South-East Asia and India.

Travel has a separate operating structure and management team from High Street, reflecting the distinct operational and strategic challenges of the two businesses. Travel stores are typically in higher footfall locations than High Street stores, resulting in higher average rents, with rents paid as a percentage of sales (subject to minimum guarantees). Travel is less affected by the Christmas trading period. Increased passenger traffic during the summer holiday season, particularly in airports, contributes to a summer peak in sales.

Performance

	2012 £m	2011 £m	% Change	Like-for-like % Change
Revenue	**462**	455	**2**	**(3)**
Trading profit[1]	**63**	57	**11**	

[1] Travel trading profit is stated after directly attributable share-based payment and pension service charges and before central costs, interest and taxation. See Note 2 on page 52.

Growth drivers

The Travel business offers opportunities for expansion in each of its channels and continues to win new contracts in airports, railway stations, motorway service areas, hospitals and workplaces. Despite continued variability in passenger numbers between airports, medium-term forecasts suggest that passenger numbers in Air will return to growth. Travel is well-positioned to benefit when the economy improves and passenger numbers do return to growth.

The business continues to develop new store formats such as WHSmith Express, WHSmith BooksPlus, WHSmith Café and the tailored workplace format. We continue to grow our international business using different operating models: direct lease, joint venture and franchise. As at 31 August 2012 we operated 62 units in international locations, and have won a further 39 which are yet to open.

Competitive position and strengths

The Travel business is impacted by geopolitical events, war and acts of terrorism, which have from time to time contributed to a reduction in commuter and travelling customer traffic and a heightened apprehension around rail and air travel. Closure of routes, both planned and unplanned, such as strikes and weather-related disruption, as well as other factors affecting passenger traffic, can also affect operating results.

Travel faces competition in its product categories primarily from other retailers in rail, air, motorways, hospitals and workplaces. The growth of these retailers may take market share from Travel and have a negative impact on revenue and profit.

Travel has significant competitive strengths. Its business model is made up of three elements: a compelling customer proposition with a widely recognised and respected brand, a strong track record with landlords, and the ability to translate the fundamentals of the model to other formats and channels. The business also has prime locations in each of its main channels; high levels of customer footfall; purchasing and sourcing scale; and an experienced senior management team. Considering all these factors, the Board believes that Travel is well-placed to create shareholder value by delivering long-term profit growth and strong cash generation.

Performance review 2011/12

Travel delivered another good profit performance during the year despite the tough economic climate, demonstrating the strength of the business model which enables us to continue to grow even in a challenging environment. Trading profit[1] increased by 11 per cent to £63m (2011: £57m) as a result of higher sales, an increase in gross margin and a focus on cost control. We continue to benefit from variable rents based on turnover and are well-positioned when the economy improves and passenger numbers return to growth.

Total Travel sales grew by two per cent driven by new business. Like-for-like sales were down by three per cent. Gross margin increased by around 160bps during the year, driven by active category mix management. We continue to identify further opportunities for growth in the UK and opened 35 units during the year with a similar number planned for 2012/13.

In our Airport stores we saw like-for-like sales down four per cent. As expected, air passenger numbers remain soft overall and airports with a higher business travel mix are performing better than other airports. We also continue to see a stronger mix of overseas passengers coming to the UK versus UK departing passengers, particularly this summer during the Olympics, and expect these trends to continue during the current year. Medium-term, forecasts suggest that passenger numbers will return to growth and we are well-positioned when the recovery does come. We continue to invest in our estate and during the year we rolled out self-service checkouts to large airside units with the aim of improving queuing and customer service. This type of initiative demonstrates our continued investment and leading position in the market, which helps us to continue to win new space. We opened six new units in Air in the year and expect a similar number of units to open in 2012/13.

In Rail like-for-like sales were down four per cent overall, with London mainline stations down three per cent and regional rail down five per cent. This continuing trend, showing London is a little more insulated from the current economic conditions, is reflective of the picture we also see in Air. We successfully completed six refits of major units, however we saw further disruption in a number of mainline stations during the year as station refits continued in preparation for the London 2012 Olympics. We opened four new units in Rail during the year, including Stratford International, and plan to open a similar number of units in regional railway stations in the year ahead.

Review of operations continued

We have worked hard to establish a strong presence in the Hospital channel and continue to consistently expand our store base. Like-for-like sales in Hospitals were up one per cent, being impacted less by the current economic slowdown. Our understanding of the needs of this channel continues to improve alongside improvements in our range and offer. During the year we opened seven new hospital units, including locations such as Kirkcaldy and Salisbury, and we now have 114 units open, from a base of only seven in 2007. We anticipate opening around 10 units a year over the next few years.

In the Workplace channel we also continue to grow, opening eight units in the year to take us to 23 units now open. We expect to continue to be able to open new space in this channel into the medium-term.

We continue to invest for the future in Travel, 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 both in the UK and internationally.

In our International markets, the WHSmith brand and offer continue to be well received and we have demonstrated in each location that 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 progress in a number of regions, including Australia, South-East Asia, India and the Middle East. On 11 October 2012, we announced a further 21 new units: seven in Australia, including five 'Fresh Plus' hospital café stores which we acquired in September, three in Malaysia and 11 in the Middle East, including five in Amman airport in Jordan. We now have 101 international units either open or won, including stores in Air, Rail, Hospitals and Malls.

We will continue to grow our international business utilising our different operating models: direct lease, franchise and joint-venture. Of the 101 units we have already opened or won, 67 per cent are franchise, 25 per cent are direct lease and the remainder are joint venture.

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

High Street

The High Street plan concentrates on building authority in our core categories, optimising margins, controlling costs and ensuring we deliver the retailing basics.

Nature of business, market and competitive position

The High Street business operates 618 stores with an extensive reach across the UK and a presence on nearly every significant UK high street. At 31 August 2012, High Street operated from a total of 3.0m square feet of selling space, with stores ranging in size from 777 square feet to more than 23,000 square feet.

High Street sells a wide range of products, which are divided into the following categories: Stationery (including greetings cards), Books, and News and Impulse (including newspapers, magazines and confectionery), as well as a small range of Entertainment products in some stores. High Street's trading is seasonal, peaking at Christmas, with other peaks at Easter and in August / September for 'Back to School'.

The online retail business is operated by High Street and sells a range of Books, Stationery, Magazines and Gifts through its website at www.whsmith.co.uk and personalised greetings cards and gifts through www.funkypigeon.com and www.funkypigeon.ie.

Growth drivers

High Street's performance is dependent upon overall growth in consumer spending, growth in the non-food, non-clothing sector and High Street's ability to take share in its product markets. The management team believes that, following the continued slowdown in consumer spending in our markets, we should see a return to more normal levels of growth over the longer term. We continue to invest in the High Street estate and to identify opportunities to open new stores in un-served catchments.

Competitive position and strengths

High Street's competition comes primarily from other high street specialists, supermarkets and internet retailers. Online retailers offer customers access to, and digital versions of, our product categories via their computers and mobile devices, while supermarkets give customers access to our product categories as they carry out their regular food shopping. The growth of these formats may take market share away from the High Street business and may have a negative effect on the sales and profit generated by our High Street stores.

High Street has significant competitive strengths. The Board believes it is well-placed to deliver good cash generation and create shareholder value through factors such as its widely respected and recognised brand; prime sites in key UK high street retail locations; high customer footfall; leading positions in its target categories; purchasing and sourcing scale, driving value for the customer; an experienced senior management team; and managing our space allocation between and within our core categories and other services.

Performance

	2012 £m	2011 £m	Change %	Like-for-like % Change
Revenue	**781**	818	**(5)**	**(5)**
Trading profit[1]	**54**	52	**4**	

[1] High Street trading profit is stated after directly attributable share-based payment and pension service charges and before central costs, interest and taxation. See Note 2 on page 52.

Performance review 2011/12

High Street delivered a resilient performance in challenging trading conditions with trading profit[1] of £54m (2011: £52m), up four per cent on the prior year. This was achieved through continuing our strategy to focus on our core categories, 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 five per cent both in total and on a like-for-like basis, reflecting the current economic climate and our active management of Entertainment, particularly in the first half.

During the year we delivered gross margin improvement of around 120bps. This continues to be driven by rebalancing the mix of the business to focus on higher margin categories such as Stationery. Additional margin improvement has come from better buying terms and improved sourcing and markdown management.

Our strategy to build on our market leading position in Stationery remains unchanged. Like-for-like sales were down, 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 further improvement in gross margin. We continue to make progress developing the category and have introduced new ranges in time for Christmas this year, including a wide range of Gadgetshop branded products. We saw a strong performance from www.funkypigeon.com over the key seasons and we continue to create high levels of brand awareness. We continue to develop the offer, including the launch of *Me to You* cards, an increased range of humour cards and new personalised gifting products.

News and Impulse like-for-like sales were down 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 and we continue to increase the space to this category.

In Books, the smallest of our core categories, like-for-like sales were down 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 at Christmas we annualised strong publishing from the previous year. In Fiction, the first half of the year remained weak, as expected, with the second half 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 sub-categories, reinforcing the strength of our consumer proposition.

Our position in Books is well established, differentiated from our competitors and provides our customers, who tend to be lighter book buyers, with what they want from a bookseller – a proper range, great value and promotions like the Richard and Judy Book Club, that give our customers the confidence to choose a book they know they will enjoy.

While the eBooks market continues to grow, it still represents only a small proportion of the consumer books market in the UK. Within core consumer books, eBooks is focused on Fiction, which represents over 80 per cent of eBook downloads. Our core market is lighter, less affluent book buyers with around 75 per cent of our book sales in Non-Fiction and Kids.

We continue to develop our presence in the eBooks market through increasing our space to eBooks and optimising the space between eBooks, physical books and our other categories, and developing our partnership with Kobo. Performance of Kobo continues to be ahead of plan. During the year we successfully rolled out Kobo shops into our one hundred largest High Street stores. Whilst it is still early days, we are pleased with their performance. We have also recently launched this season's new device line-up, including: the Kobo *Mini*, the Kobo *Glo* and a 7" android tablet, the Kobo *Arc*.

Cost savings remain a core part of our strategy and we have continued to make good progress again this year. By the year end, we delivered £17m of cost savings. These came from across the business, including the roll-out 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, taking the target to £25m over the next three years.

The High Street business now operates from 618 stores[2], 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 un-served catchments.

[2] Including branches in Guernsey and Isle of Man.

Financial review

Group profit

The Group generated a profit before tax of £102m (2011: £93m), an increase of 10 per cent on the prior year. Profit from trading operations[1] increased to £117m, up seven per cent on the prior year.

	2012 £m	2011 £m	Profit Growth %
Travel trading profit[1]	**63**	57	11%
High Street trading profit[1]	**54**	52	4%
Group profit from trading operations[1]	**117**	109	7%
Unallocated central costs	**(15)**	(16)	(6)%
Group operating profit	**102**	93	10%
Net finance income/(charges)	**–**	–	
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. See Note 2 on page 52.

Finance charges and taxation

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

The tax charge for the year was £18m (2011: £20m). The effective tax rate on continuing activities was 18 per cent (2011: 21 per cent). We expect the effective tax rate to remain below the UK statutory rate over 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.

Earnings per share

Earnings per share[2] increased by 22 per cent to 62.7p (2011: 51.4p), reflecting the increase in profit, the lower tax rate and the lower basic weighted average number of shares in issue following the share buyback.

Dividends

The Board has proposed a final dividend of 18.6p per ordinary share, an increase of 22 per cent on the prior year. This increase on the prior year, together with the return of cash to shareholders announced on the 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.

[2] Diluted.

Balance sheet and cash flow

The Group had net assets of £149m (2011: £156m) at the end of the period, a decrease of £7m since 31 August 2011 reflecting the profit and cash generation of the Group over the period as well as the return of cash to shareholders through the share buyback. The cash generative nature of the High Street and Travel businesses is one of the strengths of the Group.

Cash flow

The Group generated £91m (2011: £96m) of free cash flow during the period.

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

Cash inflows 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 ongoing 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.

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

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 ordinary dividend payments (2011: £29m), £13m pension funding (2011: £14m) and net ESOP Trust purchases of £2m (2011: £12m). During the year,

Financial review continued

the Company completed a £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, the Group had net cash of £36m. The Group has a committed multi-currency revolving credit facility of £70m through to January 2016.

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	58	109%	24%
High Street	118	46%	17%
Trading operations	**176**	**66%**	**20%**
Unallocated central liabilities	(62)		
Operating assets employed	**114**	**89%**	**20%**

For the prior year, comparable ROCE was 81 per cent (18 per cent – after capitalised operating leases).

Pensions

Following the completion of the last triennial valuation at 31 March 2012, the main defined benefit pension scheme, the WHSmith Pension Trust, had an actuarial deficit of £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).

Outlook

We have delivered a strong performance across the Group during the year, despite the challenging economic environment, and Group profit has now doubled since the demerger in 2006. Travel delivered another good profit performance in the year and we saw further profit growth from High Street, with both businesses continuing to be highly cash generative. We continue to invest in the business and in new opportunities whilst consistently growing dividends and returning cash to shareholders.

As ever, we rely on the hard work and commitment of our staff to deliver these results and I would like to thank them for their support throughout the year.

Looking to the year ahead, we are not expecting any improvement in underlying economic conditions and, as such, we continue to manage the business tightly whilst focussing on investing in the business and in new opportunities to ensure we are well-positioned for the future. WHSmith is a resilient business with a strong and consistent record of both profit growth and cash generation. The Group has clearly identified growth opportunities going forward and we will continue to drive both businesses to maximise their different contributions to delivering value for shareholders.

Kate Swann
Group Chief Executive

11 October 2012

[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.

Key performance indicators

Details of key performance indicators used by management of the business are provided below:

Profit

	2012 £m	2011 £m	Growth %
Travel trading profit[1]	**63**	57	11%
High Street trading profit[1]	**54**	52	4%
Group profit before tax	**102**	93	10%

	2012	2011	Growth %
Earnings per share[2]	**62.7p**	51.4p	22%

Revenue

	2012 £m	2011 £m	Annual Change %	LFL Change %
Travel	**462**	455	2%	(3%)
High Street	**781**	818	(5%)	(5%)
Group	**1,243**	1,273	(2%)	(5%)

	2012	2011
Gross margin growth	**140bps**	150bps

	2012	2011
Free cash flow[3]	**91**	96

	2012	2011
Fixed charges cover[4]	**1.6x**	1.5x

Retail selling space

	Stores/Units			Selling Space (Sq ft '000s)		
	2012	2011	Growth %	2012	2011	Growth %
Travel units[5]	**619**	561	10%	**510**	481	6%
High Street stores	**618**	612	1%	**3,045**	3,087	(1%)

[1] High Street and Travel trading profit is stated after directly attributable share-based payment and pension service charges and before central costs, interest and taxation. See Note 2 on page 52.

[2] Diluted EPS.

[3] Net cash flow from operating activities adjusted for capital expenditure, pension deficit funding and net interest received. See Group cash flow statement on page 45 and Note 22 on page 65.

[4] Note 7 to the financial statements.

[5] Includes 115 Motorway franchise units (2011: 115 units); 38 international franchise units (2011: 21 units) and 12 Caffe Nuovo units (2011: 12 units).

Principal risks and uncertainties

The Board considers the risks set out below to represent the Group's principal risks and uncertainties, together with the mitigating actions that are taken in order to ensure that these risks are appropriately monitored and controlled. WHSmith's management team recognise that the profile of risks constantly changes and additional risks not presently known, or that may be currently deemed immaterial, may also impact the Group's business objectives and performance.

Risk/description	Mitigation
Economic, political, competitive and market risks	
WHSmith operates in highly competitive markets and our failure to compete effectively with travel, convenience and other retailers may affect revenues obtained through our stores. Failure to keep abreast of market developments, including the use of new technology, could threaten our competitive position. In each country in which WHSmith operates, the Group may also be impacted by regulatory and tax changes, increasing scrutiny by competition authorities (such as the ongoing investigation into the sale of eBooks), political developments, the economic climate and the general condition of retail and travel markets. Factors such as household disposable income, weather, seasonality of sales, changing demographics and customer shopping patterns, and raw material costs could impact profit performance.	WHSmith's performance is dependent upon effectively predicting and quickly responding to changing consumer demands. The Group conducts customer research to understand current demands and preferences in order to help translate market trends into saleable merchandise. WHSmith is a member of key industry bodies which help maintain awareness of developments in standards and legislation.
Reliance on the WHSmith brand	
The WHSmith brand is an important asset. Failure to protect it from an event that materially damages its reputation, and/or the failure to sustain its appeal to customers, could have an adverse effect on revenues.	The Group regularly monitors key service and compliance measures to ensure that operating standards are maintained in the UK and internationally.
Key suppliers and supply chain management	
WHSmith has agreements with key suppliers in the UK, Europe and the Far East. The interruption or loss of supply of core category products from these suppliers to our stores may affect our ability to trade. Quality of supply issues may also impact the Group's reputation and impact our ability to trade.	The Group conducts risk assessments of all its key suppliers to identify alternatives and develop contingency plans in the event that any of these key suppliers fail. All suppliers have to comply with the conditions laid out in our Supplier Code of Conduct which covers areas such as production methods, employee working conditions and quality control. WHSmith has contractual and other arrangements with numerous third parties in support of its business activities. None of these arrangements are individually considered to be essential to the business of the Group.
Store portfolio	
The quality and location of the Group's store portfolio are key contributors to the Group's strategy. Retailing from a portfolio of good quality real estate in prime retail areas and at commercially reasonable rates remains critical to the performance of the Group. All of High Street's stores are held under operating leases, and consequently the Group is exposed to the extent that any store becomes unviable as a result of rental costs. Most Travel stores are held under concession agreements on average for 5-10 years, although there is no guarantee that concessions will be renewed or that Travel will be able to bid successfully for new contracts. The majority of Travel's airport and railway concession agreements contain change of control clauses, giving various rights to the grantor of the concession, such as termination of the contract, in the event of a successful takeover bid for WHSmith.	WHSmith undertakes research of key markets and demographics to ensure that we continue to occupy prime locations and identify appropriate locations to acquire new space.

Risk/description	Mitigation
Business interruption	
An act of terrorism or war, or an outbreak of a pandemic disease, could reduce the number of customers visiting WHSmith outlets, causing a decline in revenue and profit. In the past, our Travel business has been particularly impacted by geopolitical events such as major terrorist attacks, which have led to reductions in customer traffic. Closure of travel routes both planned and unplanned, such as the disruption caused by natural disasters or weather-related events, may also have a material effect on business. The Group operates from three distribution centres and the closure of any one of them may cause disruption to the business. In common with most retail businesses, WHSmith also relies on a number of important IT systems, where any system performance problems could seriously affect our ability to trade.	WHSmith has business continuity plans in place which are regularly reviewed, updated and tested. The Group's IT systems receive ongoing investment to ensure that they are able to respond to the needs of the business. Back-up facilities and contingency plans are in place and are tested regularly to ensure that business interruptions are minimised and that data is protected from corruption or unauthorised use.
Reliance on key personnel	
The performance of WHSmith depends on its ability to continue to attract, motivate and retain key head office and store staff. The retail sector is very competitive and the Group's personnel are frequently targeted by other companies for recruitment.	The Remuneration Committee monitors the levels and structure of remuneration for senior management and seeks to ensure that they are designed to attract, retain and motivate the key personnel to run the Group successfully.
Treasury, financial and credit risk management	
WHSmith's exposure to and management of capital, liquidity, credit, interest rate and foreign currency risk are analysed further in Note 23 of the accounts. The Group also has credit risk in relation to its trade, other receivables and sale or return contracts with suppliers.	The Group's Treasury function seeks to reduce exposures to interest rate, foreign exchange and other financial risks, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. WHSmith does not engage in speculative trading in financial instruments and transacts only in relation to underlying business requirements. The value of any deposit that can be placed with any approved counterparty is based on short-term and long-term credit ratings. The Group's Treasury policies and procedures are periodically reviewed and approved by the Audit Committee and are subject to Group Internal Audit review. The Group has a committed facility with a number of financial institutions which are available to be drawn for general corporate purposes including working capital. This facility matures in January 2016.
Pensions and investment risk management	
The Group's defined benefit pension scheme, the WHSmith Pension Trust, has assets valued at £889m as at 31 August 2012 managed by third party investment managers. The Liability Driven Investment (LDI) structure that is in place has a number of inflation and interest rate hedges and equity option agreements, with collateral posted daily to or from the scheme to the relevant counterparty. The risk of failure of counterparties could also expose the scheme to loss. The scheme's liabilities are also subject to changes in longevity.	An Investment Committee of the Trustees to the scheme meets regularly to review the performance of the investment managers and the scheme as a whole. The Company is represented on this Committee. The risk of failure of counterparties and of the investment manager is monitored regularly by the Committee. The Trustees have the right to determine the level of contributions and the Company has agreed with the Trustees a deficit funding schedule. Further details can be found in Note 4 of the accounts.

Employees

The Group employs approximately 16,000 people, primarily in the UK, and it is proud of its long history of being regarded as a responsible and respected employer.

Equal opportunities

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

Training and development

We recognise the importance of training and development to support employee satisfaction and promote a knowledgeable workforce. Our programmes enable our staff to grow with the Company and develop their careers. Succession planning is emphasised across the Group and we continue to achieve high internal succession rates. During the year, we launched the Retail Academy with new programmes to support internal store succession and enable us to continue to meet the objective that over 75 per cent of store manager appointments should be sourced from internal candidates.

Employee engagement

Employee engagement is supported through clear communication of the Group's performance and objectives. This information is cascaded through team briefings, large employee events, intranet sites and regular e-newsletters. This approach and the Group's open management style encourages employees to contribute to business development.

Employee share ownership

The Company operates a HM Revenue & Customs Approved Save-As-You-Earn share option scheme ('Sharesave Scheme') which provides employees with the opportunity to acquire shares in the Company. Approximately 830 employees participate in the scheme.

Social and environmental matters

We continue to operate a robust corporate responsibility (CR) programme that is closely aligned to the Group strategy. The management of social and environmental matters is embedded into day-to-day operations across the business. This year we were delighted to retain a Platinum ranking in the annual Business in the Community CR Index.

We operate our CR programme through four key areas: Marketplace, Environment, Workplace and Community. Our CR strategy is based on ensuring that we effectively manage the environmental and social issues which are material to the Group and to each business unit. The Board carry out annual reviews to ensure the successful implementation of the CR strategy and to approve our targets for the coming year. The following section provides an introduction to our CR work during the year. More detailed information, notably key performance data and future targets, is available in our full CR report, available at www.whsmithplc.co.uk/cr.

Marketplace

Customers

Customer service standards remain a key focus for our business. We review our performance through an independently conducted Customer Satisfaction Monitor which assesses performance in areas such as friendliness and helpfulness of staff, time spent queuing and store cleanliness and tidiness. In the latest survey, our High Street stores achieved an overall customer satisfaction score of 8.2 out of 10, with our Travel stores scoring 8.1 out of 10. We use the findings of these surveys to ensure that we continue to focus on the key elements of service that are most important to our customers.

We continue to look at ways to improve the experience for our customers, for example, following extensive trials last year, we have rolled out self-service tills to 131 High Street and Travel stores and have seen positive feedback from customers.

We take seriously the responsibility for the products we sell, and we are committed to listening to our customers' feedback. Our Marketing Code of Practice sets out the standards we follow in our promotional activity, marketing and advertising. In practice this ensures we sell products that are safe, fit for purpose, meet legal standards and are not described in a misleading manner, particularly when marketing to children.

Suppliers

Ethical trading

We are committed to good labour standards and respecting the environment in our supply chain. Our Supplier Code of Conduct and Human Rights policy states our expectations of our suppliers. We operate an active programme whereby we engage with suppliers to encourage regular performance improvements.

The in-house supplier audit team based in our Far East Sourcing office carries out a regular programme of supplier audits to monitor labour standards. They visit each new factory to assess its performance and, where necessary, agree an action plan for improvement with the factory. We provide support as suppliers make these improvements, and ensure that all direct source suppliers and Asia-based suppliers of UK agents are audited at least every two years.

Against the background of our audit programme, we continue to focus on engagement with key suppliers to support them as they seek to improve their performance. This engagement is currently focused on improving worker representation in factories. Although the project seeks to address a challenging issue – the lack of formal worker representation in China – many factory managers are keen to get involved in the project, seeing it as an opportunity to improve staff morale and consequently improve staff retention rates in a competitive labour market. During the year, we held workshops for suppliers in northern China to introduce the Worker Representative project to them. We are now working with 11 factories as they seek to make improvements and use the project toolkits, and provide us with regular updates on progress.

WHSmith is a member of the Ethical Trading Initiative.

Forest sourcing

It is our continuing objective that all virgin (i.e. non-recycled) material used in our own-brand products is from known, legal, well-managed and credibly certified forests. This year, in order to ensure compliance with the March 2013 EU Timber Regulations, we have implemented a strengthened due diligence system and now require that suppliers provide a far greater level of documentary evidence to prove the forest source for timber used in own-brand products. Using this new due diligence system we have so far been able to verify that 58 per cent of the timber used within our own-brand timber products originates from recycled or certified forest sources.

We have carried out extensive supplier engagement and training to ensure that suppliers have a full understanding of the new EU Timber Regulations and WHSmith's specific requirements. In the year ahead, we are focussed on working with our suppliers to deliver material improvements in performance and ensure that we continue to drive improvement in this key area.

For a number of years, we have been working to improve the forest source information provided on product packaging so that our customers can make an informed choice whether to buy a Forest Stewardship Council (FSC) certified or recycled product. The range of products marked with the FSC logo now extends from pencils and calendars to greetings cards. In the year ahead, we are targeting a further 20 per cent increase in the number of FSC-labelled products to ensure that we give our customers as much information as we can about the products they are buying.

Payment policy for suppliers

The Company's policy for the payment of suppliers, which complies with the CBI Code of Practice for Buyers, is to agree the terms of payment in advance in line with normal trade practice and, provided a supplier performs in accordance with the agreement, to abide by such terms. Copies of the CBI code may be obtained from the CBI, Centre Point, 103 New Oxford Street, London WC1A 1DU. The Company's trade creditors figure as at the balance sheet date was equivalent to 59 days (2011: 56 days) based on the ratio of average trade creditors to the amounts paid during the year to trade suppliers.

Social and environmental matters continued

Environment

We recognise that good environmental management also makes good business sense. We are committed to reducing the environmental impact of our business, and measure our performance each year.

The largest contributor to our carbon footprint is the energy used to heat and light our stores. Following a successful trial, we have rolled out new LED lighting to the majority of the High Street store estate. The LED lighting is more efficient than our previous lighting system, but still provides the appropriate level of illumination for the stores to remain bright and appealing to our customers. This has enabled us to cut energy use per square foot by 10 per cent in the year. In the year ahead, we hope to roll the project out further to distribution centres and some Travel stores.

The second largest contributor to our carbon footprint is our transport fleet. This year, we have made further improvements to routing and also to delivery frequency. Changes in frequency have enabled us to cut the number of deliveries made by around 17,000 in the year and contributed to a further reduction in the CO_2 emissions per pallet moved, down three per cent year on year.

Waste created by inefficient use of resources and rising landfill tax represents a significant cost to the business. In response, we have been operating recycling and waste reduction initiatives for several years. We have previously introduced a new recycling system for many of our High Street stores, which enables our stores to recycle most forms of waste, including plastics and metals that we could not previously recycle. The new system enabled us to increase the volume of waste recycled by nine per cent, with 69 per cent of waste now being recycled. We also continue to encourage customers to refuse or reuse carrier bags, promoting re-usable bags and also making a small charge for bags in some stores.

Health and safety

We are committed to maintaining high standards of health and safety. The management team, supported by professional safety advisers, monitors key safety performance indicators and an annual report detailing trends, performance and recommendations is presented to the Board. The business also has a Health and Safety committee that is comprised of representatives and professional health and safety advisers. We have set a target to reduce reportable accidents recorded across the Group by five per cent by 2013, based on 2010 levels, and we continue to make good progress to meet this goal.

Community

As a leading bookseller and stationer we focus our community investment on supporting education and life-long learning. Over the year we maintained our commitment to invest one per cent of pre-tax profits into local communities, resulting in £1,009,634 in donations (2011: £933,121). Included in this figure are cash donations and gifts in kind. These donations totalled £134,638 (2011: £162,260), and were made to local schools and registered charities including the Woodland Trust and the National Literacy Trust. Over the year, donations made to charities through the sale of products totalled £186,701 (2011: £151,318), including Children in Need, Help for Heroes, Shelter and Macmillan Cancer Support. Lastly, we donated significant commercial support to our biggest charity partners, for example, World Book Day; these donations totalled £417,090 (2011: £383,356).

The full extent of our community investment activity, measured according to the London Benchmarking Group model, is outlined in the Group's CR Report.

The WHSmith Group Charitable Trust, an independent registered charity, actively supports employees that are involved with charitable organisations in their local communities, as well as working in partnership with the Company to support literacy projects.

Our community engagement programmes continue to focus on literacy as this is so central to our business. We are now in the second year of a project with the National Literacy Trust funding workshops which give parents practical tools to support their children's literacy development. Our Schools Giveaway project saw £20,000 worth of WHSmith vouchers given away to schools all over the country to help build school library resources. We also ran a project to donate books to hospitals where we operate, providing library resources for patients to access whilst in hospital.

Many of our products continue to raise funds for charity partners. This year, we sold Christmas cards and calendars for Children in Need as we have done in the past, and also encouraged store and head office staff to get involved in fundraising, boosting the total raised.

Political donations

It is the Company's policy not to make political donations and no political donations or EU political expenditure were made in the year (2011: £nil).

Corporate governance, AGM and other matters

Introduction from the Chairman

The Board of the Company is committed to achieving the highest standards of corporate governance. As Chairman, my role is to run the Board to ensure that the Company operates effectively and ensure that the Board has the right balance of skills and experience to assess, manage and mitigate risks.

This report, which forms part of the Directors' Report and the Directors' Remuneration Report, provides details of how the Company has applied the principles of and complied with the UK Corporate Governance Code (the 'Code'). A copy of the Code is available publicly from www.frc.org.uk. The Board confirms that the Company has complied with the principles of the Code throughout the financial year ended 31 August 2012. This report also includes the information that is required by Disclosure and Transparency Rules ('DTR') 7.2 to be contained in the Company's Corporate governance statement.

Walker Boyd
Chairman

11 October 2012

Board of Directors

On 11 October 2012, the Board comprised the Chairman, three executive directors and three independent non-executive directors. Short biographies of each of the directors, which illustrate their range of experience, are set out on page 31. There is a clear division of responsibility at the head of the Company; Walker Boyd (Chairman) being responsible for running the Board and Kate Swann (Group Chief Executive) being responsible for implementing strategy. Jeff Harris performed the role of Senior Independent Director until his resignation on 10 July 2012. Henry Staunton was appointed as Senior Independent Director on 1 August 2012. The Board structure ensures that no individual or group dominates the decision making process.

All the directors served throughout the period except as set out below:

Steve Clarke was appointed as an executive director on 1 June 2012.

Jeff Harris resigned as a non-executive director on 10 July 2012.

All of the non-executive directors who served during the year and up to the date of this report are considered by the Board to be independent.

The Board met nine times during the year. It is expected that all directors attend Board and Committee meetings, unless they are prevented from doing so by prior commitments. All directors are expected to attend the Annual General Meeting ('AGM'). Where directors are unable to attend meetings, they receive the papers for that meeting giving them the opportunity to raise any issues and give any comments to the Chairman in advance of the meeting. Following the meeting the Chairman briefs any member not present on the discussions and any decisions taken at the meeting. The following table shows the number of Board meetings held during the year ended 31 August 2012 and the attendance record of individual directors.

Board membership	Number of meetings attended
Walker Boyd	9 of 9
Steve Clarke	2 of 2
Mike Ellis	9 of 9
Drummond Hall	9 of 9
Jeff Harris	6 of 8
Robert Moorhead	9 of 9
Henry Staunton	7 of 9
Kate Swann	9 of 9

[1] Steve Clarke was appointed as a director of the Company on 1 June 2012.
[2] Jeff Harris resigned as a director of the Company on 10 July 2012. Jeff Harris was unable to attend two meetings of the Board. He received the agendas and papers for the meetings and gave comments in advance of the meetings.
[3] Henry Staunton was unable to attend two meetings of the Board. He received the agendas and papers for the meetings and gave comments in advance of the meetings.

The Board has met twice since 31 August 2012 and all the current directors attended both meetings.

The Board manages the Company through a formal schedule of matters reserved for its decision. These include overall management of the Company; approval of strategic plans including acquisitions and disposals; approval of the Company's commercial strategy and operating and capital expenditure budgets; approval of the Annual Report and Financial Statements, material agreements and non-recurring projects; treasury policy; control, audit and risk management; remuneration; and corporate responsibility.

All directors have access to the advice and services of the Company Secretary and may take independent professional advice at the Company's expense in the furtherance of their duties. The Board receives appropriate and timely information, Board and Committee papers normally being sent out several days before meetings take place. All newly appointed directors receive induction training on joining the Board which is tailored to meet the needs of the individual, including store visits and meetings with employees across the businesses and external advisers. The need for director training is regularly assessed by the Board.

The performance of the Board and its Committees is a fundamental component of the Company's success. The Board regularly reviews its own performance and carried out a formal evaluation in September 2012. The evaluation was co-ordinated and directed by the Chairman with the support of the Company Secretary. A questionnaire was prepared by the Chairman and the Company Secretary and formed the basis of in-depth interviews with each director. The main areas considered by the evaluation were performance, composition, expertise and strategy. The results of the assessment were considered by the Board, and confirmed the strength of the management of the Company, a sound governance framework and practices compliant with the Code. As a result of the review, the Board agreed an action plan which included a number of steps to improve its procedures and effectiveness.

Corporate governance, AGM and other matters continued

In accordance with the Code the Board will undertake an external review within the next 12 months as the Company seeks to further enhance the effectiveness of the Board.

Annual reviews of the performance of the Audit, Nominations and Remuneration Committees have also been carried out as part of the Board evaluation. These reviews have confirmed that each Committee continues to operate effectively.

The Group Chief Executive reviews the performance of the Executive Directors and other senior executives. The Chairman reviews the performance of the Group Chief Executive and each non-executive director. During the year, the Chairman had regular meetings with the non-executive directors, without the executive directors present, to discuss Board issues and how to build the best possible team. The Senior Independent Director met with the directors in the absence of the Chairman, to assess the Chairman's performance.

Under the Company's Articles of Association, directors are required to retire and submit themselves for re-election every three years and new directors appointed by the Board offer themselves for election at the next AGM following their appointment. However, in accordance with the Code, the Board has agreed that all directors will stand for election or re-election at the AGM to be held on 23 January 2013. Biographies of all the directors are set out on page 31 of this Annual Report and are also available for viewing on the Company's website (www.whsmithplc.co.uk).

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

The interests of the directors and their immediate families in the share capital of the Company, along with details of directors' share options and awards, are contained in the Remuneration report on pages 32 to 40.

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

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

The Board delegates specific responsibilities to the Board Committees detailed on the following pages, the role and responsibilities of each Committee being set out in formal terms of reference which are available on the Company's website.

Board Committees

Audit Committee

Chair: Mike Ellis

Audit Committee Report

Dear Shareholder

As Chairman of the Audit Committee I am pleased to present my report on the activities of the Audit Committee for the financial year ended 31 August 2012. Our principal objectives are to provide effective financial governance in respect of the Group's financial results, the performance of both the internal audit function and the external auditor, and the management of the Group's systems of internal control, business risks and related compliance activities.

The other members of the Committee are Drummond Hall and Henry Staunton who are independent non-executive directors. The Board considers that I have recent and relevant financial experience, as required by the Code. Jeff Harris served on the Committee during the year until his resignation from the Board on 10 July 2012. At the invitation of the Committee, the Chairman of the Board, the Group Finance Director, the Internal Audit Director and representatives of the external auditors regularly attend meetings. The Committee has regular private meetings with the external and internal auditors during the year.

The Committee met four times during the year. It is expected that all Committee members attend meetings, unless they are prevented from doing so by prior commitments. The following table shows the number of meetings held during the year ended 31 August 2012 and the attendance record of individual directors.

Committee membership	Number of meetings attended
Mike Ellis	4 of 4
Drummond Hall	4 of 4
Jeff Harris	4 of 4
Henry Staunton	3 of 4

[1] Walker Boyd and Robert Moorhead were invited to and attended four meetings of the Audit Committee.

[2] Jeff Harris resigned as a director of the Company on 10 July 2012.

[3] Henry Staunton was unable to attend one meeting of the Committee. He received the agenda and papers for the meeting and gave comments in advance of the meeting.

The Audit Committee has met once since 31 August 2012 and all the Committee members attended the meeting.

During the year the work of the Committee included:

- a review of the preliminary and interim announcements, Annual Report and Financial Statements;
- consideration of reports from the external auditors identifying any accounting or judgemental issues requiring its attention;
- approval of the audit plans for the external and internal auditors;
- consideration of reports from the Internal Audit Director on the results of internal audit reviews, significant findings, management action plans and timeliness of resolution;
- consideration of the external auditors performance;
- a review of the Company's risk management process;
- a quarterly review of risk reports;
- a review of management of fraud risk;
- a review of the Company's Business Continuity Plans; and
- a review of the effectiveness of the Company's whistleblowing process.

The Committee reviewed the effectiveness of the Company's financial controls and the systems of internal control by approving the Internal Audit Plans in July 2012 and by reviewing the findings quarterly, and by reviewing the scope of work and reports of the external auditors. The Committee also reviewed the risk assessment process and corporate business risk registers throughout the year. The risk registers outline the key risks faced by the Company including their impacts and likelihood along with the relevant mitigating controls and actions.

The external auditors reported to the Committee on their independence from the Company. In accordance with professional standards, the partner responsible for the audit is changed every five years, and was last changed in 2009. The Committee considers whether the audit should go out to tender but has taken the view that partner rotation at both the Group and operating business level has been sufficient to maintain the necessary independence. There are no contractual restrictions on the Committee as to the choice of external auditors. The Committee and the Board are satisfied that Deloitte LLP has adequate policies and safeguards in place to ensure that auditor objectivity and independence are maintained.

The Committee has also adopted a formal policy on the Company's relationship with its auditor in respect of non-audit work. The policy is reviewed annually by the Committee. The majority of non-audit work undertaken by Deloitte LLP in 2011/12 related to tax and turnover certificates. The auditors may only provide such services if such advice does not conflict with their statutory responsibilities and ethical guidance. As Chairman of the Audit Committee, my approval is required before the Company uses non-audit services that exceed £25,000. For the financial year ended 31 August 2012 the non-audit fees were £73,000 and the audit fee was £261,000.

In line with our terms of reference, the Committee undertook a thorough assessment of the quality, effectiveness, value and independence of the audit provided by Deloitte LLP, seeking the views and feedback of the Board, together with those of Group and divisional management. Following our review, the Committee has determined to recommend to the Board the re-appointment of Deloitte LLP at the AGM on 23 January 2013.

I will be available at the Annual General Meeting to answer any questions about the work of the Committee.

Mike Ellis
Chairman of the Audit Committee

11 October 2012

Corporate governance, AGM and other matters continued

Nominations Committee

Chair: Walker Boyd

Nominations Committee Report

Dear Shareholder

As Chairman of the Nominations Committee I am pleased to present my report on the activities of the Nominations Committee for the financial year ended 31 August 2012. The Committee's principal responsibility is to ensure that the Board comprises individuals with the requisite skills, knowledge and experience to ensure that it is effective in discharging its responsibilities and ensure that appropriate procedures are in place for the nomination, selection and succession of directors and senior executives.

The Committee comprises a majority of independent non-executive directors. The members of the Committee are Mike Ellis, Drummond Hall, Henry Staunton and Kate Swann. Jeff Harris served on the Committee during the year until his resignation from the Board on 10 July 2012. In the event of any matters arising concerning my membership of the Board, I would absent myself from the meeting as required by the Code and Henry Staunton, the Senior Independent Director, would take the Chair.

The Committee met three times during the year. It is expected that all Committee members attend meetings, unless they are prevented from doing so by prior commitments. The following table shows the number of meetings held during the year ended 31 August 2012 and the attendance record of individual directors.

Committee membership	Number of meetings attended
Walker Boyd	3 of 3
Mike Ellis	3 of 3
Drummond Hall	3 of 3
Jeff Harris	2 of 3
Henry Staunton	3 of 3
Kate Swann	3 of 3

[1] Jeff Harris resigned as a director of the Company on 10 July 2012.

During the year the Committee reviewed the Company's succession plans and the ongoing structure and capability of the Board. In accordance with the Company's Board development plan, Steve Clarke, Managing Director of WHSmith High Street was appointed as an executive director on 1 June 2012. The Committee also recommended that Henry Staunton be appointed as Senior Independent Director following the resignation of Jeff Harris.

Following the decision by Kate Swann to step down as Chief Executive, the Committee, in accordance with the Company's long-term succession plan, recommended that Steve Clarke, the Managing Director of the WHSmith High Street business, be appointed as Chief Executive with effect from 1 July 2013. Steve is the unanimous choice of the Board as he has the qualities and experience to lead the Company and continue its record of delivering superior shareholder returns. The Company continues to use the services of a number of external consultants in developing its succession plans but no formal external search was undertaken in respect of Steve Clarke's proposed appointment as Chief Executive.

The Committee keeps itself updated on key developments relevant to the Company, including on the subject of diversity in the boardroom. The Board believes in creating throughout the Company a culture free from discrimination in any form and is proud of its long history of being regarded as a responsible and respected employer. Within the Company, women account for 44 per cent of store managers and 32 per cent of senior management roles. The Committee believes in providing mentoring for women in senior roles to help them maximise their careers at the Company. The Committee has chosen not to set specific representation targets for women at Board level at this time. However, I confirm that the benefits of diversity, including gender diversity, will be actively considered as part of the current search for a new non-executive director following the resignation of Jeff Harris, within the overriding objective of ensuring that the Board has the appropriate balance of skills, experience and independence.

The Committee has appointed external recruitment consultants to assist in the process of identification of potential candidates to join the Board and I confirm that the consultants we have appointed have signed up to the voluntary Code of Conduct covering board appointments established following the Davies Review.

I will be available at the Annual General Meeting to answer any questions about the work of the Committee.

Walker Boyd
Chairman of the Nominations Committee

11 October 2012

Remuneration Committee

Chair: Drummond Hall

Remuneration Committee Report

Dear Shareholder

As Chairman of the Remuneration Committee I am pleased to present my report on the activities of the Remuneration Committee for the financial year ended 31 August 2012. As ever, our remuneration policy aims to encourage a performance-based culture, to attract and retain high calibre executives and align executives' and shareholders interests. In light of the 2011 Remuneration Review we are not proposing any major changes to our remuneration arrangements in 2012/13. However, we will continue to monitor our approach to pay against the backdrop of evolving regulation and the wider climate on executive pay, to ensure that remuneration remains simple, aligned with our strategy and fair to Executives and shareholders. Following the proposals made by the Department of Business, Innovation and Skills ('BIS') in June 2012, we will seek to introduce changes to the way we present information in next year's report as guidance on these proposals becomes available.

The other members of the Committee are Walker Boyd, Mike Ellis and Henry Staunton. Jeff Harris served on the Committee during the year until his resignation from the Board on 10 July 2012. At the invitation of the Committee, the Group Chief Executive and representatives of the Committee's external independent remuneration adviser, regularly attend meetings. The responsibilities of the Committee include:

- determining and agreeing with the Board the policy for the remuneration of the Chairman, executive directors and certain other senior executives;
- approving the design of, and targets for, any performance-related pay schemes operated by the Company and approving the total annual payments made under such schemes;
- reviewing the design of all share incentive plans for approval by the Board and shareholders;
- ensuring that contractual terms on termination, and any payments made, are fair to the individual and the Company, and ensuring that failure is not rewarded and that the duty to mitigate loss is fully recognised; and
- determining the total individual remuneration package of each executive director and other senior executives, including bonuses and share incentives.

The remuneration of the non-executive directors is determined by the Chairman and the executive directors.

The Committee met six times during the year. It is expected that all Committee members attend meetings, unless they are prevented from doing so by prior commitments. The following table shows the number of meetings held during the year ended 31 August 2012 and the attendance record of individual directors.

Committee membership	Number of meetings attended
Drummond Hall	6 of 6
Walker Boyd	6 of 6
Mike Ellis	6 of 6
Jeff Harris	5 of 6
Henry Staunton	5 of 6

[1] Jeff Harris resigned as a director of the Company on 10 July 2012.

[2] Henry Staunton was unable to attend one meeting of the Committee. He received the agenda and papers for the meeting and gave comments in advance of the meeting.

[3] Kate Swann was invited to and attended three meetings of the Remuneration Committee.

The Remuneration Committee has met twice since 31 August 2012 and all the Committee members attended both meetings.

The Remuneration report is set out on pages 32 to 40.

I will be available at the Annual General Meeting to answer any questions about the work of the Committee.

Drummond Hall
Chairman of the Remuneration Committee

11 October 2012

Corporate governance, AGM and other matters continued

Risk management and internal controls

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

i) Risk

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

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

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

ii) Internal controls

a) Financial controls

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

- the Board is responsible for overall Company strategy, for approving revenue and capital budgets and plans, for approving major acquisitions and disposals and for determining the financial structure of the Company, including treasury and dividend policy. Monthly results, variances from plan and forecasts are reported to the Board;
- the Audit Committee assists the Board in the discharge of its duties regarding the Company's financial statements, accounting policies and the maintenance of proper internal business, operational and financial controls. The Committee provides a direct link between the Board and the external auditors through regular meetings;
- the Internal Audit function advises and assists business management to establish and maintain adequate financial controls and reports to the Audit Committee on the effectiveness of those controls;
- the Board has established an organisational structure with clearly defined lines of responsibility and approval controls identifying transactions requiring approval by the Board or by the Approvals Committee. The Group Finance Director is responsible for the functional leadership and development of the Company's finance activities;
- there is a comprehensive system for budgeting and planning and for monitoring and reporting the performance of the Company's business to the directors. Monthly results are reported against budget and prior year, and forecasts for the current financial year are regularly revised in light of actual performance. These results and forecasts cover profits, cash flows, capital expenditure and balance sheets;
- the Company has established a uniform system of investment appraisal;
- executive management has defined the financial controls and procedures with which each business is required to comply. Key controls over major business risks include reviews against performance indicators and exception reporting, and the business is required to prepare monthly management accounts; and
- routine reports are prepared to cover treasury activities and risks, for review by senior executives, and annual reports are prepared for the Board and Audit Committee covering tax, treasury policies, insurance and pensions.

b) Non-financial controls

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

- a corporate responsibility strategy was approved by the Board, including objectives and targets to address the impact that our activities have on the environment, workplace, marketplace and community;
- clear accountability for corporate responsibility issues has been defined at Board and operational level;
- annual updates are submitted to the Board on each aspect of corporate responsibility;
- the Board is committed to maintaining high standards of health and safety in all its business activities. These standards are set out in the Company's Health and Safety Policy which is regularly reviewed by the Board. The Risk Management team works with the business to assess health and safety risks and introduce systems to mitigate them. All notified accidents are investigated and targets are set to reduce the level of incidence;
- the Board has approved an Environmental Policy and sets environmental objectives and specific targets which are reviewed annually;
- the Board is committed to ensuring reasonable standards among its suppliers and has approved an Ethical Trading Code of Conduct setting out the standards it expects its partners and suppliers to adopt. This policy covers health and safety, child labour, working hours, discrimination and the environment;
- the Company is committed to ensuring that its personnel meet good standards of integrity and competence. The Company's systems cover the recruitment, training and development of personnel, an appropriate division of responsibilities and the communication of Company policies and procedures throughout the organisation; and
- Business Recovery Plans exist to enable the business to continue in the event of a disaster with minimum disruption to customers.

Anti-corruption

The Bribery Act came into force in July 2011. The Company has enhanced its policies and procedures in order to meet the requirements of the Act. These policies and procedures include training for individuals to ensure awareness of acts that might be construed as contravening the Act. The Group's anti-corruption policy is included on the corporate website, www.whsmithplc.co.uk.

Relations with shareholders

The Board's primary role is to promote the success of the Company and the interests of shareholders. The Board is accountable to shareholders for the performance and activities of the Group. The Company recognises the importance of communicating with its shareholders to ensure that its strategy and performance are understood. This is achieved principally through the Annual Report and accounts and the AGM. In addition, a range of corporate information, including all Company announcements and presentations, is available to investors on the Company's website, www.whsmithplc.co.uk.

Formal presentations are made to institutional shareholders following the announcement of the Company's full year and interim results. The Board recognises that the AGM is the principal forum for dialogue with private shareholders. All directors normally attend the AGM and are available to answer any questions that shareholders may wish to raise.

The Notice of Meeting is sent to shareholders at least 20 working days before the meeting. Those shareholders who have elected to receive electronic communications receive notice of the availability of the Annual Report on the Company's website. The deadline for appointing a proxy is 48 hours before the time fixed for the meeting (although, in calculating this period, no account is taken of non-working days).

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

The Board as a whole is kept fully informed of the views and concerns of major shareholders. The Group Chief Executive and Group Finance Director update the Board following meetings with major shareholders and analysts' briefings are circulated to the Board. The Head of Investor Relations also carries out a regular programme of work and reports to the Board the views and information needs of institutional and major investors. This is part of the regular contact that the Group maintains with its institutional shareholders. When requested to do so, the Chairman and non-executive directors attend meetings with major shareholders.

Compliance with the Code

Throughout the year ended 31 August 2012 the Company has been in compliance with the provisions of the Code.

Corporate governance, AGM and other matters continued

Dividends
The directors recommend the payment of a final dividend for the year of 18.6p per ordinary share on 31 January 2013 to members on the Register at the close of business on 4 January 2013. This final dividend and the interim dividend of 8.3p per ordinary share paid on 18 July 2012 makes a total dividend of 26.9p per ordinary share for the year ended 31 August 2012.

Share capital
The issued share capital of the Company, together with details of shares issued during the year, are shown in Note 24 to the Accounts.

The issued share capital of the Company as at 31 August 2012 was 130,059,573 ordinary shares of $22^6/_{67}$p each. These shares are listed on the London Stock Exchange and can be held in certificated or uncertificated form.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and voting rights.

There are no restrictions on the transfer of ordinary shares in the Company other than certain restrictions imposed by laws and regulations (such as insider trading laws and market requirements relating to close periods) and requirements of the Listing Rules whereby directors and certain employees of the Company require Board approval to deal in the Company's securities.

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

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

Purchase of own shares
At the 2012 AGM, authority was given for the Company to purchase, in the market, up to 20,763,024 ordinary shares of $22^6/_{67}$p each. The Company used this authority to purchase and subsequently cancel 9,393,040 of its own shares during the financial year, representing 7.2 per cent of the issued share capital, at an average price of 529p. The aggregate amount of consideration (including costs) paid by the Company for the purchases was £50m. This authority is renewable annually and approval will be sought from shareholders at the AGM in 2013 to renew the authority for a further year.

On 23 August 2012 the Company announced its intention to make a further return of up to £50m of cash to shareholders via a rolling share buyback programme. During the period 1 September 2012 to 11 October 2012 the Company purchased and subsequently cancelled a further 278,000 of its own shares representing 0.21 per cent of the called-up share capital, at an average price of 625p. The aggregate amount of consideration (including costs) paid by the Company for the purchases was £2m.

Issue of new ordinary shares
During the financial year ended 31 August 2012, 296,493 ordinary shares of the Company were issued under the Sharesave Scheme at prices between 295.20p and 426.80p. The Articles of Association of the Company provide that the Board may, subject to the prior approval of the members of the Company, be granted authority to exercise all the powers of the Company to allot shares or grant rights to subscribe for or convert any security into shares, including new ordinary shares.

Significant agreements – change of control
A change of control of the Company following a takeover bid may cause a number of agreements to which the Company or its trading subsidiaries, WH Smith High Street Limited and WH Smith Travel Limited, is party, such as commercial trading contracts, banking arrangements, property leases, licence and concession agreements to take effect, alter or terminate. In addition, the executive directors' service agreements and employee share plans would be similarly affected on a change of control, including, in the case of some of the directors, in relation to compensation for loss of office.

Details of the change of control clause contained in the service contracts of the executive directors can be found in the Remuneration report on page 36.

Directors' conflicts

The Company's Articles of Association permit the Board to consider and, if it sees fit, to authorise situations where a director has an interest that conflicts, or may possibly conflict, with the interests of the Company ('Situational Conflicts'). The Board has a formal system in place for directors to declare Situational Conflicts to be considered for authorisation by those directors who have no interest in the matter being considered. In deciding whether to authorise a Situational Conflict, the non-conflicted directors must act in the way they consider, in good faith, would be most likely to promote the success of the Company, and they may impose limits or conditions when giving the authorisation, or subsequently, if they think this is appropriate. Any Situational Conflicts considered by the Board, and any authorisations given, are recorded in the Board minutes and in a register of conflicts which is reviewed regularly by the Board.

Company's shareholders

The Company has been notified in accordance with the Disclosure and Transparency Rules of the Financial Services Authority that, as at the date of this report, the following shareholders own more than three per cent of the issued share capital of the Company:

Holder	Number	% as at date of notification	Nature of Holding
Lloyds Banking Group plc	10,372,477	7.98	Indirect
Artemis Investment Management LLP	6,849,281	4.99	Direct
Jupiter Asset Management Limited	7,787,536	4.96	Indirect
JP Morgan Chase & Co.	7,428,306	4.74	Indirect

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

Financial risk management

The financial risk management and policies of the Group are disclosed in Note 23 of the Accounts.

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 this Directors' report and business review. This Directors' report and business review also describes the Group's financial position, cash flows and borrowing facilities, further information on which is detailed in Notes 20 to 23 of the Accounts. In addition, Note 23 of the Accounts includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. The Directors' report and business review also highlights the principal risks and uncertainties facing the Group.

The Group continues to be highly cash generative and has a committed multi-currency revolving credit facility of £70m.

The Directors report that they have reviewed current performance and forecasts, combined with expenditure commitments, including capital expenditure, proposed dividends and share buyback, 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 despite the current uncertain economic outlook. For this reason, they have continued to adopt the going concern basis in preparing the financial statements.

Auditors

Deloitte LLP has expressed its willingness to continue in office as auditors of the Company. A resolution to re-appoint Deloitte LLP as auditors to the Company and a resolution to authorise the directors to determine its remuneration will be proposed at the AGM.

Disclosure of information to auditors

Having made the requisite enquiries, as far as each of the directors is aware, there is no relevant audit information (as defined in Section 418 of the Companies Act 2006) of which the Company's auditors are unaware, and each of the directors has taken all steps he or she should have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Annual General Meeting

The AGM of the Company will be held at Allen & Overy LLP, One Bishops Square, London E1 6AD on 23 January 2013 at 11.30am. The Notice of Annual General Meeting is given, together with explanatory notes, in the booklet which accompanies this report.

This report was approved by the Board on 11 October 2012.

By order of the Board

Ian Houghton
Company Secretary

11 October 2012

Statement of Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the directors are required to:

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

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the Directors' report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Kate Swann
Group Chief Executive

Robert Moorhead
Group Finance Director

Board of Directors

1: **Walker Boyd**

2: **Kate Swann**

3: **Robert Moorhead**

4: **Steve Clarke**

5: **Mike Ellis**

6: **Drummond Hall**

7: **Henry Staunton**

1. Walker Boyd joined the Board of WHSmith as a non-executive director in February 2010 and became Chairman on 1 September 2010. He retired as Group Finance Director at Signet Jewelers Limited in June 2010 (previously Signet Group Plc) having held this position since 1995. He also became Chairman of Spirit Pub Company plc in August 2011.

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

3. Robert Moorhead is Group Finance Director and joined the Board of WHSmith in December 2008. He joined WHSmith in 2004 as Retail Finance Director. Previously, he was Group Finance Director at Specsavers Optical Group and Finance and IT Director of World Duty Free Europe. He also held a number of roles at B&Q and Kingfisher Group. He started his career at Price Waterhouse.

4. Steve Clarke is Managing Director of WHSmith High Street and joined the Board of WHSmith on 1 June 2012. He joined WHSmith in August 2004 as Marketing Director for WHSmith High Street. In 2006 he was appointed Commercial and Marketing Director and in 2008 became Managing Director of WHSmith High Street. He began his career at the Dixons Group where he carried out a number of store, product and marketing roles.

5. Mike Ellis is a non-executive director and joined the Board of WHSmith in March 2005. He was previously Group Finance Director of HBOS plc. Prior to this, he worked in a number of senior executive positions at Halifax plc (and its predecessor, Halifax Building Society). He is Chairman of Skipton Building Society.

6. Drummond Hall is a non-executive director and joined the Board of WHSmith in September 2008. He spent the early part of his career with Procter & Gamble, Mars and PepsiCo Inc, and from 2002 to 2006 was Chief Executive of Dairy Crest PLC.

7. Henry Staunton is a non-executive director and Senior Independent Director and joined the Board of WHSmith in September 2010. He is also a non-executive director and Vice Chairman of Legal & General Group Plc, Capital and Counties Properties plc and Merchants Trust plc.

Ian Houghton is Company Secretary and Legal Director.

Board Committees

Audit Committee
Mike Ellis – Chairman
Drummond Hall
Henry Staunton

Nominations Committee
Walker Boyd – Chairman
Mike Ellis
Drummond Hall
Henry Staunton
Kate Swann

Remuneration Committee
Drummond Hall – Chairman
Walker Boyd
Mike Ellis
Henry Staunton

Remuneration report

This Report has been prepared on behalf of the Board by the Remuneration Committee. In all its activities, the Committee has adopted the principles of good governance relating to directors' remuneration as set out in the UK Corporate Governance Code and complies with the Companies Act 2006, the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 and the Listing Rules of the Financial Services Authority. Part A of the report, which is not subject to audit, sets out the Company's remuneration policy. Part B, which has been audited, provides details of the remuneration, pensions and share incentives of the directors for the year ended 31 August 2012.

PART A – Unaudited Information

During the year the Committee received advice from FIT Remuneration Consultants LLP ('FIT'), its external independent adviser, which is a member of the Remuneration Consultants Group and adheres to its code of conduct. FIT has no other relationship with the Company. The Committee also received advice from an independent law firm, Allen & Overy LLP, who were appointed by the Company, in respect of share schemes. Allen & Overy LLP provided the Company with other legal services. Ian Houghton, Company Secretary, also materially assisted the Committee in carrying out its duties, except in relation to his own remuneration. Kate Swann attends meetings at the invitation of the Committee. Walker Boyd absents himself from discussions about his own pay.

Remuneration policy

The Company's remuneration policy aims to encourage a performance-based culture, attract and retain high calibre executives and align executives' and shareholders' interests. In determining such policy the Remuneration Committee takes into account all factors which it deems necessary, including market practice, performance of the individual and of the Company, the experience and responsibility of the individuals concerned and pay and conditions elsewhere in the Group. The Committee endeavours to ensure that any pay rises for executive directors are generally comparable with those being applied elsewhere within the Group. The objective of the policy is to ensure that executive management are provided with appropriate incentives to encourage enhanced long-term performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company. Basic salary is targeted around the median of the market with an opportunity to earn above median levels of total reward where there is exceptional performance. The Committee is guided by the strategic and financial priorities of the Group as outlined in other sections of the Annual Report. The Committee also takes account of the changing nature of the business, the markets in which it operates and reward practices and employment conditions of employees throughout the Group.

In line with the Association of British Insurers' Guidelines on Responsible Investment Disclosure, the Remuneration Committee will ensure that the incentive structure for executive directors and senior management will not raise environmental, social or governance ('ESG') risks by inadvertently motivating irresponsible behaviour. More generally, with regard to the overall remuneration structure, there is no restriction on the Remuneration Committee which prevents it from taking into account corporate governance on ESG matters.

During the year under review shareholders approved the adoption of the new WH Smith 2012 Co-Investment Plan ('CIP') which is designed to help the Company incentivise and retain management. The CIP will replace the WH Smith 2008 Management Investment Plan and will provide participants with an opportunity to demonstrate their continued commitment to, and belief in, the ongoing plans for the Company by investing in ordinary shares. Awards to participants under the CIP will only become exercisable provided that certain stretching performance conditions are met and their investment is retained until the normal vesting date.

The current performance-related benefits, which consist of an annual performance bonus and long-term incentives, account for a significant proportion of total remuneration.

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

Name	Fixed element	Performance-related elements	
	Base salary + pension	Annual bonus	Long-term incentives
Kate Swann	18%	27%	55%
Robert Moorhead	21%	22%	57%
Steve Clarke	21%	22%	57%

a) Under the annual bonus plan Kate Swann can earn up to 200 per cent of salary, Robert Moorhead and Steve Clarke can earn up to 130 per cent of salary.

b) The value placed on annual bonus and long-term incentives assumes maximum performance and the latter comprises the value of shares awarded under both the LTIP and the CIP.

c) The above table does not include the value of other taxable benefits such as car allowance and private medical insurance.

d) Steve Clarke was appointed as a director of the Company on 1 June 2012.

Salary and benefits

The salaries of executive directors were reviewed in March 2012 (or on appointment). This represents 18 months since the last review in 2010 as the annual review date was changed from September to March. Following the review, Kate Swann's salary remained unchanged at £525,000 and Robert Moorhead's salary was increased by six per cent (i.e. four per cent annualised) to £318,000. Steve Clarke's salary on joining the Board was £315,000. When conducting this review, the Committee takes into account a range of factors including the Group's performance, market conditions, the prevailing market rates for similar positions in comparable companies, the responsibilities, individual performance and experience of each executive director and the level of salary increases awarded to employees throughout the Group. Executive directors also receive taxable benefits including a car allowance and private medical insurance. Any payments made to executive directors other than salary are not pensionable.

The Chairman's annual fee remains unchanged at £165,000.

The fees paid to non-executive directors are determined by the Chairman and the executive members of the Board and are paid in cash. The levels are set to take into account the required time commitment and the fee payments for non-executive directors of similar organisations. The fees paid to the non-executive directors have not been reviewed and remain unchanged for the current financial year. Non-executive directors do not participate in any bonus or share schemes. The fees comprise:

Basic Annual Fee – £40,000

Committee Chairman – £6,000*

Senior Independent Director – £5,000

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

Annual bonus plan

Under the annual bonus plan, participants have the opportunity to earn a bonus based on the achievement of a profit target and a personal rating measured against one or more specific (financial and/or non-financial) objectives. Kate Swann's personal rating is based on the achievement of Group profit before tax. The maximum level of bonus paid to a participant in the plan is dependent on the achievement of both the maximum target for the profit before tax and after interest measure and the highest personal performance rating. Annual performance targets are set by the Committee based on a range of factors, including consensus analysts' profit forecasts and the Company's own internal budgets. The Committee sets a threshold, on-target and maximum pay-out target with straight-line vesting between those figures.

No bonus is paid unless both the threshold profit target and at least an acceptable personal rating are achieved. For a combination of an on-target PBT and a good personal rating, an executive would earn approximately 48 per cent of the maximum bonus payable under the plan. No changes to the structure of the bonus plan are proposed in respect of the forthcoming financial year.

For the year under review, Kate Swann had the opportunity to receive an annual bonus up to a maximum of 200 per cent of base salary and Robert Moorhead and Steve Clarke had the opportunity to receive an annual bonus up to a maximum of 130 per cent of base salary. The Company's performance of £102m was in line with the maximum target set for financial performance and, therefore, the Committee approved maximum bonus payments under this measure for the financial year ended 31 August 2012. The overall bonuses earned in the year were 200 per cent in the case of Kate Swann, 130 per cent in the case of Robert Moorhead and 122.5 per cent in the case of Steve Clarke.

From 1 September 2012, the plan rules have been amended to include provision for claw-back if the Committee subsequently discovers information which leads it to conclude that any bonus is greater than it should have been or if it concludes that circumstances arose during the bonus year which would have warranted summary dismissal.

Long-term incentives

WH Smith 2008 Management Investment Plan ('MIP')

Under this plan, executive directors and key senior executives were given the opportunity to invest their own money to buy ordinary shares in the Company and were granted matching awards to acquire further ordinary shares in proportion to the amount invested. Executive directors and certain other key executives could invest up to 150 per cent of base salary. For awards made in October 2010, the number of shares over which a matching award could be granted was up to four times the amount invested in the case of executive directors and up to 3.75 times the amount invested for other executives.

Following extensive consultation with shareholders, the Committee adopted a combination of financial and market-based measures as the basis for the performance targets which were aimed at delivering enhanced returns to shareholders. It believed that such a combination of targets was best suited to the needs of the Company and its shareholders.

For awards granted in October 2010, the extent to which matching awards vest will depend on the satisfaction of EPS and total shareholder return ('TSR') performance targets.

The performance targets are as follows:

a) Eighty per cent of the award is dependent on the satisfaction of an adjusted diluted EPS performance target. EPS will be measured over the three years ending 31 August 2013 and will measure growth in fully diluted EPS. Threshold performance, which results in the vesting of 30 per cent of the shares, requires EPS growth at a compound rate equal to seven per cent per annum. Maximum performance, which results in the vesting of 100 per cent of the shares, requires EPS growth at a compound rate equal to 12 per cent per annum; and

Remuneration report continued

b) The remaining 20 per cent of the award is dependent on the satisfaction of a TSR performance target. The TSR target will compare the TSR on an investment in the Company's ordinary shares with the TSR on a notional investment in the FTSE All Share General Retailers Index constituents over the period between 14 October 2010 and the announcement of the Company's results in October 2013 for the year ending 31 August 2013. Threshold performance will require that the Company's TSR is at the median position relative to the comparator group. Maximum performance will require the Company's TSR to be at the 75th percentile relative to the comparator group.

For performance between these levels a matching award will vest on a pro-rata straight-line basis. The performance conditions will be tested separately.

The end of the TSR Performance Period is one month after the date of the announcement of the Company's results which will be announced in October 2013. FIT independently carries out the relevant TSR calculations for the Company and will test the extent to which the TSR condition has or has not been met after the end of the performance period.

The Remuneration Committee must also be satisfied that there has been an improvement in the Company's underlying financial performance in determining whether any payment should be made in respect of the satisfaction of the TSR performance condition. The Committee will adjust the EPS performance target by excluding the benefit of changes in Government tax policy since the commencement of the performance period. The Committee will, therefore, ensure that the performance targets are no less challenging to achieve than originally intended.

Following the approval of the WH Smith 2012 Co-Investment Plan by shareholders in January 2012, no further grants will be made under the MIP.

WH Smith LTIP

Under this plan, executive directors and senior executives may be awarded each year conditional entitlements to ordinary shares in the Company up to a value of 200 per cent of base salary. For the awards granted in the financial year ended 31 August 2012, the Committee adopted a combination of financial and market-based measures as the basis for the performance targets in order to reward long-term sustained performance. It believes that such a combination of targets is best suited to the needs of the Company and its shareholders. For the awards to be made in the financial year ending 31 August 2013, following consultation with shareholders, awards under the LTIP will be subject to suitably demanding EPS, TSR and dividend growth performance conditions.

The performance conditions for awards granted in the financial year ended 31 August 2012 were as follows:

a) the performance condition applying to 60 per cent of the award shares is based on growth in the adjusted diluted EPS of the Company over the three years ending 31 August 2014 (the 'Performance Period') and vesting will occur on the following basis:

Annual rate of growth in adjusted diluted EPS of the Company (compounded annually) over the performance period	Proportion exercisable
Below 5%	Zero
5%	30%
10% or more	100%
Between the above points	Pro rata between 30% and 100%

For these purposes EPS will be determined by reference to fully diluted EPS before exceptional items and will exclude IAS 19 pension charges from the calculation, adjusted as considered appropriate by the Committee to ensure consistency. The Committee adjusted the EPS performance target by excluding the benefit of changes in Government tax policy since the commencement of the performance period to ensure that the target operates as originally intended (changes over the last few years have, therefore, made the targets higher than would otherwise have been the case); and

b) the performance condition applying to the remaining 40 per cent of such an award is based on the Company's TSR performance against the FTSE All Share General Retailers Index constituents over the Performance Period and vesting will occur on the following basis:

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

The performance conditions for awards granted in the financial year ended 31 August 2011 are the same as those performance conditions for awards granted in the financial year ended 31 August 2012.

The performance conditions for awards granted in the financial year ended 31 August 2010 were substantially met with 90 per cent of the awards vesting and the remaining 10 per cent being lapsed. The Committee adjusted the EPS performance target by excluding the benefit of changes in Government tax policy since the commencement of the performance period by increasing the base EPS from 41.3p to 42.6p. The Committee confirmed it was satisfied that the Company's TSR was reflective of its underlying financial performance and that nothing occurred to negatively impact the performance achieved during the period. The Committee, therefore, ensured that the performance targets were no less challenging to achieve than originally intended.

FIT independently carries out the relevant TSR calculations for the Company.

Following extensive consultation with shareholders, the Committee has adopted a combination of financial and market based measures as the basis for the performance targets which are aimed at delivering enhanced returns to shareholders. It believes that a combination of targets is best suited to the needs of the Company and its shareholders. For awards to be made in the financial year ending 31 August 2013, the performance conditions will be as follows:

a) the performance condition applying to 40 per cent of such an award is based on the Company's TSR performance against the FTSE All Share General Retailers Index constituents over the performance period and vesting will occur on the same basis as set out in the TSR performance table above for awards granted in the financial year ended 31 August 2012;

b) the performance condition applying to 30 per cent of such an award is based on growth in the adjusted diluted EPS of the Company over the three years ending 31 August 2015 (the 'performance period') and vesting will occur on the following basis:

Annual rate of growth in adjusted diluted EPS of the Company (compounded annually) over the performance period	**Proportion exercisable**
Below 7%	Zero
7%	30%
12% or more	100%
Between the above points	Pro rata between 30% and 100%

c) the performance condition applying to the remaining 30 per cent of such an award comprises a dividend growth condition which will require the Company to grow its dividend per share at a faster rate than a peer group of equivalent retailers. The percentage increase in the Company's dividends (in pence) paid in respect of the base year (i.e. the financial year ended 31 August 2012 (so the interim dividend paid on 8 July 2012 together with the final dividend declared on 11 October 2012 and due to be paid on 31 January 2013 of 26.9p in total)) will be compared with the equivalent dividends paid in respect of the financial year ending 31 August 2015 and the percentage increase compared with dividends paid by the same companies in the TSR comparator group (using as a base year the financial year last ended on or before 31 August 2012) except that any company which paid no dividend in respect of the base year will be excluded and companies within the FTSE All-Share Food and Drugs retailers will be added to replace them. The companies will then be ranked in the same way as the TSR comparator group and 30 per cent of this part of the award will vest for median performance and 100 per cent will vest for upper quartile performance. The Committee reserves discretion to assess whether a company's dividend is paid otherwise than out of operating profits or otherwise than supported by its normal levels of cover and therefore should be excluded and will report any such adjustments in subsequent reports.

From 1 September 2012, the LTIP rules have been amended to include provision for claw-back of the value of vested awards if the Committee subsequently discovers information which leads it to conclude that any award vested to a greater extent than it should have done or if it concludes that circumstances arose during the vesting period which would have warranted summary dismissal.

WH Smith 2012 Co-Investment Plan ('CIP')

As approved by shareholders at the 2012 AGM, the Company has adopted the CIP to replace the previous co-investment arrangement, the MIP. The plan was designed to replace the MIP with an arrangement reflecting developments in best practice, particularly through the making of awards on an annual basis rather than the previous policy of making awards every third year.

No awards were made under the CIP in the financial year ended 31 August 2012. It is proposed that the first awards will be made to participants in the financial year ending 31 August 2013. To receive an award under the CIP, an executive will be required to buy shares (or designate shares from existing holdings) of such value as the Committee permits, not exceeding the after-tax equivalent of 50 per cent of the executive's maximum bonus. Matching awards will then be made, the vesting of which will be contingent both on continued employment (subject to the usual good leaver provisions) and suitable performance conditions. The maximum number of shares over which matching awards may be granted will be those with a value equal to two times the gross amount of the bonus that was required to buy the related investment shares.

The maximum matching awards which Robert Moorhead and Steve Clarke may receive following the announcement of the Company's results in October 2012 will be 130 per cent of salary.

The performance condition applicable to awards to be granted in the financial year ending 31 August 2013 will require the Company's EPS (defined in the same way as for the LTIP) to increase over the three financial years commencing on 1 September 2012 as follows:

Annual rate of growth in adjusted diluted EPS of the Company (compounded annually) over the performance period	**Proportion exercisable**
Below 7%	Zero
7%	25%
12% or more	100%
Between the above points	Pro rata between 25% and 100%

The CIP rules have been amended to include provision for claw-back of the value of vested awards if the Committee subsequently discovers information which leads it to conclude that any award vested to a greater extent than it should have or if it concludes that circumstances arose during the vesting period which would have warranted summary dismissal.

Remuneration report continued

WH Smith share option schemes

The Company operates two types of share option scheme:

a) an Executive Share Option Scheme which is used to grant options to executives up to an annual limit of 200 per cent of base salary. Options vest at the end of a three year period, subject to the satisfaction of performance conditions determined by the Committee. The executive directors did not participate in this scheme in the financial year ended 31 August 2012 and they do not hold outstanding awards in this scheme; and

b) HM Revenue & Customs Approved Save-As-You-Earn share option scheme (the 'Sharesave Scheme'). The Sharesave Scheme is open to all UK employees who have completed one year's service and who enter into an approved savings contract for a fixed term. The maximum amount which can be saved is £250 per month, the total savings at the end of the term being used to purchase shares at a discount of up to 20 per cent of the market value. In common with most schemes of this type, there are no performance conditions applicable to options granted under the Sharesave Scheme.

Personal shareholdings

Under the Company's formal share ownership guidelines, executive directors are required to build and maintain a shareholding with a value of at least 175 per cent of salary in the case of Kate Swann and 150 per cent of salary in the case of Robert Moorhead and Steve Clarke. The guideline requires executives to retain 50 per cent (net of tax) of any shares acquired under any incentive plans until such time as the guideline is met. All three directors have met their required holding. As at 31 August 2012 Kate Swann held 634,337 shares, Robert Moorhead held 498,125 shares and Steve Clarke held 140,974 shares.

Contracts of service

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

	Date of contract	Notice period by Company	Notice period by director
Kate Swann	2 July 2003	1 year	9 months
Robert Moorhead	1 December 2008	1 year	9 months
Steve Clarke	18 April 2012	1 year	1 year

On appointing Steve Clarke to the Board, the Committee developed a new model contract for future appointments. Consistent with developments in best practice, it provides for notice of 12 months from either party, permits summary dismissal with no compensation in appropriate cases, has no special provisions in the event of a change of control and limits the maximum sum due on termination to basic salary only for the notice period.

For Kate Swann and Robert Moorhead, their contracts provide that they may be terminated at any time by the Company upon 12 months' notice and upon nine months' notice by the executive director. In the event of a change of control of the Company there is a provision which provides for a payment of liquidated damages of 95 per cent of salary and benefits if the contract is terminated in breach of the notice period. In other circumstances, any question of compensation will be decided upon at the appropriate time rather than in advance so that the principle of mitigation is applied in the particular circumstances.

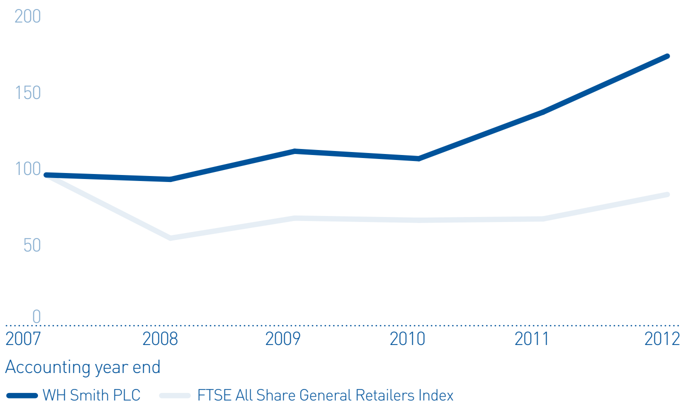
The Chairman, who has a letter of appointment, is appointed for an initial term of three years. His appointment may be terminated at any time by either the Company or the Chairman without notice.

The non-executive directors, who have letters of appointment, are appointed for an initial term of three years. These appointments can be terminated by either the Company or the non-executive director without notice.

Under the Company's Articles of Association, all directors are required to retire and submit themselves for re-election every three years. However, in accordance with the Code, the Board has agreed that all directors will stand for election or re-election at the AGM to be held on 23 January 2013.

Performance graph

Total Shareholder Return performance since 31 August 2007



a) The graph illustrates the TSR performance on a cumulative basis (with dividends reinvested) as at the end of each of the last five financial years compared with the FTSE All Share General Retailers Index over the same period.

b) WH Smith PLC is a member of the FTSE All Share General Retailers Index and, as such, this sector was considered to be the most appropriate comparator group upon which a broad equity market index is calculated.

WH Smith Employee Benefit Trust

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

Following share purchases of 542,614 shares, the number of WH Smith shares held in the Trust at 31 August 2012 was 5,032,531. The Group's accounting policy is detailed within Note 1 of the Accounts and movements are detailed in the Group statement of changes in equity on page 46.

Dilution limits

Awards of long-term incentives are satisfied using market purchase shares. WH Smith's share plans comply with recommended guidelines on dilution limits and the Company has always operated within these limits.

Pensions

For the year under review, the Company operated a defined contribution pension scheme, the WH Smith Retirement Savings Plan. Under this scheme an executive director may contribute up to an amount equivalent to five per cent of salary which is then matched by the Company. In addition, a pension supplement is also payable which may be taken as an additional pension contribution or as an addition to basic pay. For the financial year ended 31 August 2012 the total contribution to the pension scheme for Kate Swann was equivalent to three per cent of salary, for Robert Moorhead it was 11 per cent of salary and for Steve Clarke it was five per cent of salary while the supplements were 32 per cent, 14 per cent and 20 per cent of salary respectively.

External appointments

Each executive director may accept up to two non-executive directorships provided they are not both appointments to companies in the FTSE 100 or are chairmanships of a FTSE 100 company. Non-executive directorships must not conflict with the interests of the Company. Executive directors may retain fees from one of their external directorships. The fee received and retained by Kate Swann in respect of her non-executive directorship is shown in the table below:

	Directorship	Received £'000s	Retained £'000s
Kate Swann	Babcock International Group PLC	50	50

Management changes

Kate Swann will step down as Chief Executive on 30 June 2013 and will be replaced by Steve Clarke. Kate Swann will continue to receive her salary and other benefits until 30 June 2013. Under the terms of the scheme rules Kate Swann will be treated as a good leaver and will retain a reduced number of unvested awards under the WH Smith 2008 Management Investment Plan and WH Smith LTIP set out in the table on page 39. These awards will continue to be subject to meeting the performance criteria and will be reduced on a pro rata basis to reflect the time elapsed from the commencement of the performance period until her ceasing to be an employee of the Company. Kate Swann will also receive, subject to performance, a reduced bonus on the same basis under the Company's Annual bonus plan for the financial year ending 31 August 2013. Kate Swann will receive no further awards under the Company's Share Plans or additional payments beyond these terms.

Steve Clarke will be paid an annual salary of £480,000 and will have the opportunity to receive an annual bonus up to a maximum of 160 per cent of his basic salary with effect from him becoming Chief Executive Designate on 1 May 2013. Steve Clarke will be granted an additional top up award under the WH Smith LTIP based on his new salary after 1 May 2013 so that his total award under the WH Smith LTIP for the financial year ending 31 August 2013 will be the equivalent of 200 per cent of his new salary.

Remuneration report continued

PART B – Audited information

Directors' remuneration

The remuneration of the directors for the financial year ended 31 August 2012 was as follows:

	Salary/fees £'000s	Annual performance bonus £'000s	Benefits, pension supplement and other payments £'000s	Total £'000s	Year to 31 August 2011 £'000s
Walker Boyd	165	–	–	165	165
Kate Swann	525	1,049	182	1,756	1,654
Robert Moorhead	309	413	56	778	690
Steve Clarke	79	102	19	200	–
Mike Ellis	46	–	–	46	46
Drummond Hall	46	–	–	46	46
Henry Staunton	41	–	–	41	40
Directors who resigned during the year					
Jeff Harris	39	–	–	39	10
Former directors	–	–	–	–	35
Total £'000s	**1,250**	**1,564**	**257**	**3,071**	**2,686**

a) Robert Moorhead's salary increased to £318,000 per annum on 1 March 2012.

b) Steve Clarke was appointed as a director of the Company on 1 June 2012 and is paid an annual salary of £315,000.

c) Jeff Harris resigned as a director of the Company on 10 July 2012.

d) Henry Staunton was appointed as Senior Independent Director on 1 August 2012.

e) Benefits and other payments relate mainly to the provision of a company car, private medical insurance and any salary supplement paid in respect of pension entitlement.

Directors' pensions

The executive directors were members of the Company's defined contribution scheme during the year ended 31 August 2012:

	Employee contribution		Employer contribution	
	% of salary	£'000s	% of salary	£'000s
Kate Swann	3	14	3	14
Robert Moorhead	5	15	11	35
Steve Clarke	5	4	5	4

a) Executive directors receive a pension supplement which may be taken as an additional pension contribution or as an addition to basic pay. If this payment is taken as an addition to basic pay it is included in the table of Directors' remuneration under the heading Benefits, pension supplement and other payments. If so taken, it does not impact basic salary for insurance or variable pay purposes.

b) Kate Swann no longer makes contributions into the Company's defined contribution scheme as she has applied for fixed protection.

c) The dependants of executive directors are eligible for payment of a lump sum in the event of death-in-service equivalent to four times salary.

d) Steve Clarke was appointed as a director of the Company on 1 June 2012.

Share award schemes

Details of the conditional awards (in the form of nil-cost options) to acquire ordinary shares of the Company granted to executive directors are as follows:

	Date of grant	Number of shares subject to awards at 31 August 2011	Number of shares subject to awards granted during the year	Number of shares subject to awards exercised during the year	Number of shares subject to awards lapsed during the year	Number of shares subject to awards at 31 August 2012	Share price at date of grant (pence)	Exercise period
Kate Swann								
WH Smith LTIP	21.10.08	301,006	–	275,493	25,513	-	348.83	Oct 2011 – 21.10.18
	05.11.09	211,110	–	–	–	211,110	497.37	05.11.12 – 05.11.19
	21.10.10	218,100	–	–	–	218,100	481.43	21.10.13 – 21.10.20
	15.11.11	–	201,857	–	–	201,857	520.17	15.11.14 – 15.11.21
WH Smith 2008 Management Investment Plan	21.10.10	653,663	–	–	–	653,663	481.90	Nov 2013 – Nov 2015
Total		**1,383,879**	**201,857**	**275,493**	**25,513**	**1,284,730**		
Robert Moorhead								
WH Smith LTIP	21.10.08	129,003	–	118,069	10,934	-	348.83	Oct 2011 – 21.10.18
	05.11.09	105,555	–	–	–	105,555	497.37	05.11.12 – 05.11.19
	21.10.10	124,629	–	–	–	124,629	481.43	21.10.13 – 21.10.20
	15.11.11	–	115,347	–	–	115,347	520.17	15.11.14 – 15.11.21
WH Smith 2008 Management Investment Plan	21.10.10	373,521	–	–	–	373,521	481.90	Nov 2013 – Nov 2015
Total		**732,708**	**115,347**	**118,069**	**10,934**	**719,052**		
Steve Clarke								
WH Smith LTIP	05.11.09	60,317	–	–	–	60,317	497.37	05.11.12 – 05.11.19
	21.10.10	87,240	–	–	–	87,240	481.43	21.10.13 – 21.10.20
	17.11.10	10,875	–	–	–	10,875	459.77	17.11.13 – 17.11.20
	15.11.11	97,564	–	–	–	97,564	520.17	15.11.14 – 15.11.21
WH Smith 2008 Management Investment Plan	21.10.10	186,761	–	–	–	186,761	481.90	Nov 2013 – Nov 2015
	17.11.10	40,323	–	–	–	40,323	465.00	Nov 2013 – Nov 2015
Total		**483,080**	**–**	**–**	**–**	**483,080**		

a) The number of shares subject to awards is the maximum (100 per cent) number of shares that could be received by the executive if the performance targets are fully met.

b) The Company achieved 91.524 per cent of its performance targets for awards granted on 21 October 2008 under the WH Smith LTIP.

c) In respect of the award granted on 21 October 2008 under the WH Smith LTIP held by Kate Swann, 275,493 shares became exercisable and 25,513 shares lapsed. The value of the 275,493 shares on the date of exercise was £1,541,835.42 (559.6641p per ordinary share).

d) In respect of the award granted on 21 October 2008 under the WH Smith LTIP held by Robert Moorhead, 118,069 shares became exercisable and 10,934 shares lapsed. The value of the 118,069 shares on the date of exercise was £660,789.81 (559.6641p per ordinary share).

e) No option price is payable on either the grant or exercise of any award.

f) No awards have been granted to or exercised by directors between 1 September 2012 and 11 October 2012.

g) Steve Clarke was appointed as a director of the Company on 1 June 2012.

h) Matching awards under the WH Smith 2008 MIP will only vest to the extent that the performance targets as set out on pages 33 and 34 are satisfied.

i) Awards under the WH Smith LTIP will only vest to the extent that the performance targets as set out on page 34 are satisfied.

Remuneration report continued

Share option schemes

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

	Date of grant	Shares subject to options at 31 August 2011	Shares subject to options granted during the year	Shares subject to options which were exercised during the year	Shares subject to options which lapsed during the year	Shares subject to options at 31 August 2012	Option price (pence)	Exercise period
Robert Moorhead								
SAYE	02.06.10	2,266	–	–	–	2,266	400.40	01.08.13 – 31.01.14
Total		**2,266**	**–**	**–**	**–**	**2,266**		

a) The middle market price of an ordinary share at the close of business on 31 August 2012 was 600.50p (31 August 2011: 499.10p).

b) The high and low middle market prices of an ordinary share during the year were 600.50p and 471.70p respectively.

c) No options have been granted to or exercised by directors between 1 September 2012 and 11 October 2012.

Directors' interests in shares

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

	31 August 2012	31 August 2011 (or date of appointment)
Walker Boyd	35,000	35,000
Steve Clarke	140,974	140,974
Mike Ellis	4,527	4,527
Drummond Hall	10,000	10,000
Robert Moorhead	498,125	441,470
Henry Staunton	10,000	10,000
Kate Swann	634,337	932,119

a) Steve Clarke was appointed as a director of the Company on 1 June 2012.

There has been no change in the directors' interests shown above between 1 September 2012 and 11 October 2012.

Shareholder approval

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

By order of the Board

Drummond Hall
Chairman of the Remuneration Committee

11 October 2012

Independent auditors' report

to the members of WH Smith PLC

We have audited the Group financial statements of WH Smith PLC for the year ended 31 August 2012 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Changes in Equity and the related Notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 August 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement contained within the Directors' report in relation to going concern;
- the part of the Corporate Governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Other matters

We have reported separately on the parent company financial statements of WH Smith PLC for the year ended 31 August 2012 and on the information in the Directors' Remuneration Report that is described as having been audited.

Stephen Griggs (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor

London, United Kingdom

11 October 2012

Group income statement

For the year ended 31 August 2012

£m	Note	2012	2011
Continuing operations			
Revenue	2	**1,243**	1,273
Operating profit	2, 3	**102**	93
Investment income	8	**2**	1
Finance costs	9	**(2)**	(1)
Profit before tax		**102**	93
Income tax expense	10	**(18)**	(20)
Profit for the year		**84**	73
Earnings per share			
Basic	12	**64.6p**	52.1p
Diluted	12	**62.7p**	51.4p
Non GAAP measures			
Equity dividends per share[1]		**26.9p**	22.5p
Fixed charges cover	7	**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).

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	4	**(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

Group balance sheet

As at 31 August 2012

£m	Note	2012	2011
Non-current assets			
Goodwill	13	**32**	32
Other intangible assets	14	**22**	24
Property, plant and equipment	15	**155**	151
Deferred tax assets	19	**8**	7
Trade and other receivables	16	**4**	4
		221	218
Current assets			
Inventories		**151**	154
Trade and other receivables	16	**54**	57
Current tax asset		**5**	7
Cash and cash equivalents	20	**36**	41
		246	259
Total assets		**467**	477
Current liabilities			
Trade and other payables	17	**(246)**	(247)
Current tax liabilities		**(45)**	(44)
Short-term provisions	18	**(4)**	(3)
		(295)	(294)
Non-current liabilities			
Retirement benefit obligation	4	**(1)**	–
Deferred tax liabilities	19	**(4)**	(6)
Long-term provisions	18	**(3)**	(6)
Other non-current liabilities		**(15)**	(15)
		(23)	(27)
Total liabilities		**(318)**	(321)
Total net assets		**149**	156
Total equity		**149**	156

£m	Note	2012	2011
Shareholders' equity			
Called up share capital	24	**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

Group cash flow statement

For the year ended 31 August 2012

£m	Note	2012	2011
Net cash inflow from operating activities	22	**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)/increase 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)/increase in cash and cash equivalents		**(5)**	(15)
Net cash at end of the year	20	**36**	41

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 income 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, pro forma restatement and the demerger from Smith News PLC in 2006, as well as movements relating to employee share schemes of £5m (2011: £16m).

Notes to the accounts

1. Accounting policies

a) Basis of preparation

The consolidated Group financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. These are the standards, subsequent amendments and related interpretations issued and adopted by the International Accounting Standards Board ('IASB') that have been endorsed by the European Union at the year end.

The consolidated Group financial statements have also been prepared in accordance with IFRS adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation. The consolidated financial statements have been prepared on a going concern basis as explained on page 29 of the Directors' report and business review.

New standards

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
Annual Improvements to IFRS	(issued May 2010)
Amendments to IFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets

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

Amendment to IAS 12	Deferred Tax: Recovery of Underlying Assets
Amendment to IAS 1	Presentation of Items of Other Comprehensive Income
IAS 19 (2011)	Employee Benefits
IAS 27 (2011)	Separate Financial Statements
IAS 28 (2011)	Investments in Associates and Joint Ventures
Amendment to IAS 1	Presentation of Items of Other Comprehensive Income
Amendments to IFRS 7	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities
Annual Improvements 2009-2011	(issued May 2012)
IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement

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The directors anticipate that the adoption of these standards and interpretations in future years will have no material impact on the Group's financial statements, with the exception of the revisions to IAS 19 as outlined below.

The amendment to IAS 19 was published in June 2011 and will be effective for accounting periods beginning on or after 1 January 2013. The expected impact on WH Smith will be on the amount of interest in respect of its defined benefit pension scheme. The precise impact will depend on the future position of the pension scheme and future actuarial assumptions.

Accounting convention

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

Basis of consolidation

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

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

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

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

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

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

b) Revenue

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

1. Accounting policies (continued)

b) Revenue (continued)

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

c) Retirement benefit costs

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

The cost of providing benefits for the main defined benefit scheme, WHSmith Pension Trust, and the acquired United News Shops Retirement Benefits Scheme are determined by the Projected Unit Credit Method, with actuarial calculations being carried out at the balance sheet date.

Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement in the Group statement of comprehensive income.

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

d) Leasing

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

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

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

e) Intangible assets

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control, of the acquiree. Costs directly attributable to the business combination are recognised in the income statement in the period they are incurred. The cost of a business combination is allocated at the acquisition date by recognising the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at that date. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree. Intangible assets are recognised if they meet the definition of an intangible asset contained in IAS 38 and its fair value can be measured reliably. The excess of the cost of acquisition over the fair value of the Group's share of identifiable net assets acquired is recognised as goodwill.

Goodwill

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

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

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

Other intangible assets

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

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

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

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

f) Property, plant and equipment

Property, plant and equipment assets are carried at cost less accumulated depreciation and any recognised impairment in value. The carrying values of tangible fixed assets previously revalued have been retained at their book amount. Depreciation is charged so as to write off the costs of assets, other than land, over their estimated useful lives, using the straight-line method, with the annual rates applicable to the principal categories being:

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

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

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

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

g) Inventories

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

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

Provisions are made for obsolescence, markdown and shrinkage.

h) Provisions

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

Onerous contracts – property provisions

The Group's property provisions represent the present value of future net lease obligations and related costs of leasehold property (net of estimated sublease income and adjusted for certain risk factors) where the space is vacant or currently not planned to be used for ongoing operations. The periodic unwinding of the discount is treated as an imputed interest charge and is disclosed in Note 9 as 'unwinding of discount on provisions'.

i) Foreign currencies

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

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

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

j) Taxation

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

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

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

1. Accounting policies (continued)

j) Taxation (continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

Current and deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the current or deferred tax is also recognised directly in equity.

k) Financial instruments

Trade receivables

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

Cash and cash equivalents

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

Financial liabilities and equity

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

Bank borrowings

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

Trade payables

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

Equity instruments

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

Derivative financial instruments and hedge accounting

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

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and any ineffective portion is recognised immediately in the income statement.

If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net income.

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

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the net profit or loss for the period.

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

l) Share schemes

WH Smith Employee Benefit Trust

The shares held by the WH Smith Employee Benefit Trust are valued at the historical cost of the shares acquired. They are deducted in arriving at shareholders' funds and are presented as an other reserve.

Share-based payments

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

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

m) Dividends

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

n) Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with general accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. Significant items subject to such assumption and estimate include the useful economic life of assets; the measurement and recognition of provisions; the recognition of deferred tax assets; and the liabilities for potential corporation tax. Actual results could differ from these estimates and any subsequent changes are accounted for with an effect on income at the time such updated information becomes available. The most critical accounting policies in determining the financial condition and results of the Group are those requiring the greatest degree of subjective or complex judgement. These relate to retirement benefit obligations, valuation of goodwill and acquired intangible assets, onerous lease costs, inventory valuation and taxation.

Retirement benefit obligation

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

Goodwill, intangible assets and property, plant and equipment impairment reviews

The Group is required to review goodwill annually to determine if any impairment has occurred. Value-in-use calculations require the use of estimates in relation to future cash flows and suitable discount rates.

Property, plant and equipment and intangible assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted the recoverable amount of an asset or a cash generating unit is determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates.

Inventory valuation

Inventory is carried at the lower of cost and net realisable value which requires the estimation of the eventual sales price of goods to customers in the future. Any difference between the expected and the actual sales price achieved will be accounted for in the period in which the sale is made.

Provisions

Provisions have been estimated for taxation, onerous leases and discontinued operation exit costs. These provisions represent the best estimate of the liability at the time of the balance sheet date, the actual liability being dependent on future events such as economic environment and marketplace demand. Expectations will be revised each period until the actual liability arises, with any difference accounted for in the period in which the revision is made.

2. 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

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

c) Balance sheet

			2012		
£m	Travel	High Street	Continuing operations	Discontinued operations	Group
Assets					
Segment assets	**126**	**295**	**421**	**–**	**421**
Unallocated assets	**–**	**–**	**46**	**–**	**46**
Consolidated total assets	**126**	**295**	**467**	**–**	**467**
Liabilities					
Segment liabilities	**(68)**	**(177)**	**(245)**	**(4)**	**(249)**
Unallocated liabilities	**–**	**–**	**(69)**	**–**	**(69)**
Consolidated total liabilities	**(68)**	**(177)**	**(314)**	**(4)**	**(318)**
Net assets/(liabilities)	**58**	**118**	**153**	**(4)**	**149**

			2011		
£m	Travel	High Street	Continuing operations	Discontinued operations	Group
Assets					
Segment assets	125	299	424	–	424
Unallocated assets	–	–	53	–	53
Consolidated total assets	125	299	477	–	477
Liabilities					
Segment liabilities	(70)	(175)	(245)	(5)	(250)
Unallocated liabilities	–	–	(71)	–	(71)
Consolidated total liabilities	(70)	(175)	(316)	(5)	(321)
Net assets/(liabilities)	55	124	161	(5)	156

Segment assets include intangible assets, property, plant and equipment, inventories and receivables. Segment liabilities comprise operating liabilities.

Discontinued operations include property provisions relating to reversionary leases and provisions for discontinued operations (USA Travel).

d) Other segmental items

£m	Travel	High Street	2012 Continuing operations	Discontinued operations	Group
Capital additions	12	35	47	–	47
Depreciation and amortisation of non-current assets	(9)	(25)	(34)	–	(34)
Impairment losses	(2)	(3)	(5)	–	(5)

£m	Travel	High Street	2011 Continuing operations	Discontinued operations	Group
Capital additions	13	23	36	–	36
Depreciation and amortisation of non-current assets	(9)	(27)	(36)	–	(36)
Impairment losses	(1)	(1)	(2)	–	(2)

3. 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 (Note 5)	191	198
Auditors' remuneration (see below)	–	–
Fees payable to Deloitte LLP, the Group's auditors, included in the income statement relate to:		
Fees payable to the Group's auditors for the audit of the Group's annual accounts	0.2	0.2
Fees payable to the Group's auditors for other services to the Group including the audit of the Company's subsidiaries	0.1	0.1
Total audit fees	0.3	0.3
Non-audit fees including taxation and other services	0.1	0.1
	0.4	0.4

A description of the work performed by the Audit Committee is set out in the Corporate Governance section of the Directors' Report and Business Review and includes an explanation of how auditor objectivity and independence are safeguarded when non-audit services are provided by auditors. Non-audit fees relate to taxation, turnover rent certification and advice in relation to renewal of bank facilities.

4. Retirement benefit obligation

WH Smith PLC has operated a number of defined benefit and defined contribution pension plans. The main pension arrangements for employees are operated through a defined benefit scheme, WHSmith Pension Trust, and a defined contribution scheme, WHSmith Retirement Savings Plan. The most significant scheme is WHSmith Pension Trust, which is described in Note 4 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	–	–

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 per cent 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 8). Actuarial gains and losses have been reported in the statement of comprehensive income.

Total income/(expense) recognised in the Statement of Comprehensive Income ('SOCI'):

£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 losses 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).

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

4. 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 comprehensive income in relation to actuarial gains 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).

5. Staff costs and employees

a) Staff costs

The aggregate remuneration of employees was:

£m	2012	2011
Wages and salaries	**170**	174
Social security	**11**	13
Net pension cost	**3**	3
Employee share schemes	**7**	8
Total Group	**191**	198

b) Employee numbers

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

Number	2012	2011
Total retailing	**16,055**	16,240
Support functions	**31**	33
Total Group	**16,086**	16,273

6. Operating lease commitments

Amounts recognised in operating profit:

£m	2012	2011
Minimum lease payments	180	179
Contingent rent payments	10	11
Total rent paid	190	190
Sublease rentals received on operating leases	(6)	(6)
Net operating lease charges	**184**	184

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

£m	2012	2011
Within one year	166	167
Within two to five years	542	545
In more than five years	335	375
	1,043	1,087

The Group leases various properties under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. Contingent rents are payable on certain store leases based on store revenue. For those leases that are turnover-related leases, the annual net lease commitment is calculated using the minimum lease liability. The total future external sublease receipts are £9m (2011: £13m). The 2011 comparatives have been re-presented to conform to current year presentation. The average lease length across the Group is six years with Travel and High Street both at six years. In addition the Group leases various equipment and vehicles which have a total lease commitment of less than £1m (2011: less than £1m).

Potential liabilities (not included above) that could crystallise under previous assignments of leases where the liability would revert to the Group if the lessee defaulted are discussed in Note 21.

7. 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

8. Investment income

£m	2012	2011
Net income on pension schemes (Note 4)	2	1
	2	1

9. Finance costs

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

10. Income tax expense

£m	2012	2011
Tax on profit from continuing operations	34	28
Standard rate of UK corporation tax 25.16% (2011: 27.16%)		
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
Effective tax rate on continuing activities	*18%*	*21%*

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.

11. 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.

12. 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

13. Goodwill

	£m
Cost	
At 1 September 2011	32
Additions	–
At 31 August 2012	**32**
Accumulated impairment	
At 1 September 2011	–
Impairment charge	–
At 31 August 2012	**–**
Net book value at 31 August 2012	**32**

Cost	
At 1 September 2010	32
Additions	–
At 31 August 2011	**32**
Accumulated impairment	
At 1 September 2010	–
Impairment charge	–
At 31 August 2011	**–**
Net book value at 31 August 2011	**32**

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

£m	2012	2011
Travel	**21**	21
High Street	**11**	11
	32	32

Goodwill has been tested for impairment by comparing the carrying amount of each cash-generating unit ('CGU'), including goodwill, with the recoverable amount determined from value-in-use calculations. Management has determined that no impairment was necessary for the current financial year (2011: £nil).

All goodwill relates to the acquisitions of groups of retail stores and each CGU is sensitive to movements in the same key assumptions. The key assumptions on which forecast three-year cash flows of the CGUs are based include sales growth, product mix and operating costs. The values assigned to each of these assumptions were determined based on the extrapolation of historical trends within the Group, and external information on expected future trends in the UK retail industry.

These cash flows are extrapolated for an additional nine years (representing the average length of the lease for the relevant group of stores) based on long-term growth rates. The long-term growth rates used are between 2.25 per cent and 2.5 per cent, reflecting expected retail price index growth. The rate used to discount the forecast cash flows is ten per cent pre-tax (2011: ten per cent).

A sensitivity analysis has been performed in assessing recoverable amounts of goodwill. This has been based on changes in key assumptions considered to be possible by management. This included an increase in the discount rate of up to one per cent and a decrease in the long-term growth rate of up to one per cent. The sensitivity analysis shows that no impairment would arise under each scenario.

On 4 September 2012, the Group acquired a number of leasehold properties, property plant and equipment and the associated workforce from Fresh Plus Hospitality Pty Limited and Fresh Plus Leasing Pty Limited. The company is involved in the operation of hospital cafés in Australia.

The consideration for the acquisition comprised cash and deferred cash payments, and contingent consideration payable in 2015 based on profit before tax of the acquired business in the year to 31 December 2014. The total consideration transferred is £1m. The fair value of inventories and property plant and equipment acquired will be less than £1m. Goodwill of £1m will be recognised, representing the assembled workforce, synergies and future growth opportunities.

14. Other intangible assets

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

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

	£m
Cost	
At 1 September 2011	64
Additions	5
At 31 August 2012	**69**
Accumulated amortisation	
At 1 September 2011	40
Amortisation charge	6
Impairment charge	1
At 31 August 2012	**47**
Net book value at 31 August 2012	**22**

Cost	
At 1 September 2010	58
Additions	5
Acquisitions through business combinations	1
At 31 August 2011	**64**
Accumulated amortisation	
At 1 September 2010	34
Amortisation charge	6
At 31 August 2011	**40**
Net book value at 31 August 2011	**24**

Included in the net book value of other intangible assets are software costs of £14m (2011: £15m), and tenancy agreements of £8m (2011: £9m). Included in other intangible assets are certain assets considered to have an indefinite life, £4m (2011: £4m), representing certain rights under tenancy agreements, which include the right to renew leases. Management has determined that the useful economic life of these assets is indefinite because the Company can continue to occupy and trade from certain premises for an indefinite period.

15. Property, plant and equipment

£m	Land and buildings: Freehold properties	Land and buildings: Short-term leasehold	Fixtures and fittings	Equipment and vehicles	Total
Cost or valuation:					
At 1 September 2011	21	158	138	78	395
Additions	6	11	10	15	42
Disposals	(6)	(4)	(3)	(2)	(15)
At 31 August 2012	**21**	**165**	**145**	**91**	**422**
Accumulated depreciation:					
At 1 September 2011	10	90	93	51	244
Depreciation charge	1	11	8	8	28
Impairment charge	–	–	4	–	4
Disposals	–	(4)	(3)	(2)	(9)
At 31 August 2012	**11**	**97**	**102**	**57**	**267**
Net book value at 31 August 2012	**10**	**68**	**43**	**34**	**155**
Cost or valuation:					
At 1 September 2010	21	152	137	80	390
Additions	5	11	5	9	30
Disposals	(5)	(5)	(4)	(11)	(25)
At 31 August 2011	**21**	**158**	**138**	**78**	**395**
Accumulated depreciation:					
At 1 September 2010	9	84	87	52	232
Depreciation charge	1	10	9	10	30
Impairment charge	–	1	1	–	2
Disposals	–	(5)	(4)	(11)	(20)
At 31 August 2011	**10**	**90**	**93**	**51**	**244**
Net book value at 31 August 2011	**11**	**68**	**45**	**27**	**151**

No assets were held under finance leases in the current or prior year.

16. Trade and other receivables

£m	2012	2011
Current debtors		
Trade debtors	**20**	20
Other debtors	**8**	13
Prepayments and accrued income	**26**	24
	54	57
Non-current debtors		
Prepayments and accrued income	**4**	4
Total trade and other receivables	**58**	61

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

£m	2012	2011
Trade and other receivables gross	**30**	36
Allowance for doubtful debts	**(2)**	(3)
Trade and other receivables net	**28**	33
Of which:		
Amounts neither impaired nor past due on the reporting date	**26**	30
Amounts past due but not impaired		
Less than one month old	**1**	2
Between one and three months old	**1**	1
Between three and six months old	**–**	–
Between six months and one year old	**–**	–
Trade and other receivables net carrying amount	**28**	33

An allowance has been made for estimated irrecoverable amounts from the sale of goods at 31 August 2012 of £2m (31 August 2011: £3m). The ageing analysis of these receivables is given in the table below. This allowance reflects the application of the Group's provisioning policy in respect of bad and doubtful debts and is based upon the difference between the receivable value and the estimated net collectible amount. The Group establishes its provision for bad and doubtful debts by reference to past default experience. No collateral is held for amounts past due but not impaired.

No trade and other receivables that would have been past due or impaired were renegotiated during the year. No interest is charged on the receivables balance. The other classes within trade and other receivables do not include impaired assets. The Group does not hold collateral over these balances. The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

£m	2012	2011
Less than one month old	**–**	–
Between one and three months old	**–**	–
Between three and six months old	**1**	1
Between six months and one year old	**1**	2
	2	3

17. Trade and other payables – current

£m	2012	2011
Trade payables	101	96
Other tax and social security	24	24
Other creditors	63	66
Accruals and deferred income	58	61
	246	247

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 59 days (2011: 56 days). The directors consider that the carrying amount of trade and other payables approximates to their fair value.

18. Provisions

£m	Property provision	Disposal provision	Contingent consideration provision	Total
At 1 September 2011	7	1	1	9
Charge in the year	–	–	1	1
Utilised in year	(3)	(1)	–	(4)
Unwinding of discount	1	–	–	1
At 31 August 2012	**5**	**–**	**2**	**7**

£m	Property provision	Disposal provision	Contingent consideration provision	Total
At 1 September 2010	7	1	–	8
Charge in the year	1	–	1	2
Utilised in year	(2)	–	–	(2)
Unwinding of discount	1	–	–	1
At 31 August 2011	**7**	**1**	**1**	**9**

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

£m	2012	2011
Included in current liabilities	4	3
Included in non-current liabilities	3	6
	7	9

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

The disposal provision arose from commitments in respect of the disposal of the USA Travel business.

The contingent consideration provision relates to the acquisition for Spilt Ink Studio Limited. Additional consideration will be paid to the former owners of Spilt Ink Studio Limited if the company reached certain financial and non-financial targets during the years ended 31 August 2011 and 31 August 2012.

19. Deferred tax

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

£m	Accelerated tax depreciation	Lease incentives	Share-based payments	Retirement benefit obligations	Short-term timing differences	Total
At 1 September 2011	(6)	1	3	–	3	**1**
Charged to income	2	–	2	–	(1)	**3**
Charged to equity	–	–	–	–	–	**–**
At 31 August 2012	**(4)**	**1**	**5**	**–**	**2**	**4**
At 1 September 2010	(6)	2	5	–	3	**4**
Charged to income	–	(1)	(1)	–	–	**(2)**
Charged to equity	–	–	(1)	–	–	**(1)**
At 31 August 2011	**(6)**	**1**	**3**	**–**	**3**	**1**

The rate of corporation tax will change from 24 per cent to 23 per cent with effect from 1 April 2013. As deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the periods of reversal, we have restated all deferred tax closing balances using a rate of 23 per cent. The change of rate in the year decreased the net deferred tax asset by £nil (2011: £nil).

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. The future one per cent main rate of corporation tax reduction is expected to have a similar impact on the financial statements as outlined above, however the actual impact will be dependent on the deferred tax position at that time.

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

£m	2012	2011
Deferred tax liabilities (non-current liabilities)	**(4)**	(6)
Deferred tax assets	**8**	7
	4	1

20. 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).

21. Contingent liabilities and capital commitments

£m	2012	2011
Bank and other loans guaranteed	4	3

Other potential liabilities that could crystallise are in respect of previous assignments of leases where the liability could revert to the Group if the lessee defaulted. Pursuant to the terms of the Demerger Agreement with Smiths News PLC, any such contingent liability which becomes an actual liability, will be apportioned between the Group and Smiths News PLC in the ratio 65:35 (provided that the actual liability of Smiths News PLC in any 12-month period does not exceed £5m). The Group's 65 per cent share of these leases has an estimated future rental commitment at 31 August 2012 of £18m (2011: £30m). The movement in the future rental commitment is due to the crystallisation of lease liabilities, lease expiries and the effluxion of time.

Contracts placed for future capital expenditure approved by the directors but not provided for in this combined financial information amount to £3m (2011: £2m).

22. 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**

23. Financial instruments

Categories of financial instruments

	Carrying value	
£m	2012	2011
Financial assets		
Derivative instruments in designated hedge accounting relationships[1]	–	–
Loans and receivables (including cash and cash equivalents)[2]	99	109
Financial liabilities		
Finance lease obligations	–	–
Amortised cost[3]	(306)	(306)

1 All derivatives are categorised as Level 2 under the requirements of IFRS 7. The fair value measurements relating to the instruments are derived from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.
2 Included within loans and receivables are trade and other receivables, current tax assets and cash and cash equivalents.
3 Included within amortised cost are trade and other payables, current tax liabilities, borrowings and other non-current liabilities.

Comparison of carrying values and fair values

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

Risk management

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

23. Financial instruments (continued)

Capital risk

The Group's objectives with respect to managing capital (defined as net debt/funds plus equity) are to safeguard the Group's ability to continue as a going concern, in order to optimise returns to shareholders and benefits for other stakeholders, through an appropriate balance of debt and equity funding.

In managing the Group's capital levels the Board regularly monitors the level of debt in the business, the working capital requirements, forecast financing and investing cash flows. Based on this analysis, the Board determines the appropriate return to investors while ensuring sufficient capital is retained in the business to meet its strategic objectives. 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.

As at 11 October 2012 the Group has in place a £70m committed multi-currency revolving credit facility, carrying certain financial covenants which have been met throughout the period. The covenants, tested half-yearly, are based on fixed charges cover and net borrowings.

Liquidity risk

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

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

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

2012 (£m)	Due within 1 year	Due between 1 and 2 years	Due between 2 and 5 years	Due over 5 years	Total
Non-derivative financial liabilities					
Trade and other payables	285	–	–	–	**285**
Total cash flows	**285**	**–**	**–**	**–**	**285**

2011 (£m)	Due within 1 year	Due between 1 and 2 years	Due between 2 and 5 years	Due over 5 years	Total
Non-derivative financial liabilities					
Trade and other payables	283	1	–	–	**284**
Total cash flows	**283**	**1**	**–**	**–**	**284**

Credit risk

Credit risk is the risk that a counterparty may default on their obligation to the Group in relation to lending, hedging, settlement and other financial activities. The Group's principal financial assets are trade and other receivables and bank balances and cash.

The Group has credit risk attributable to its trade and other receivables including a number of sale or return contracts with suppliers. The amounts included in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of cash flows.

The Group has low retail credit risk due to the transactions being principally of a high volume, low value and short maturity. The Group has no significant concentration of credit risk, with the exposure spread over a large number of counterparties and customers.

The credit risk on liquid funds and derivative financial instruments is considered to be low, as the Board approved Group Treasury Policy limits the value that can be placed with each approved counterparty to minimise the risk of loss. These limits are based on a combination of short-term credit ratings of P-2/A-1 and long-term ratings of A3/A or better.

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

Interest rate risk

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

At 31 August 2012, the Group had drawn down £nil (2011: £nil) from its committed revolving credit facility. The Group draws down periodically on its facility, but does not view any draw down as long term in nature and therefore does not enter into interest rate derivatives to mitigate this risk.

Foreign currency risk

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

The Group uses forward foreign exchange contracts to hedge significant future transactions and cash flows denominated in currencies other than pounds sterling. The hedging instruments have been used to hedge purchases in US dollars and to minimise foreign exchange risk in movements of the USD/GBP exchange rates. These are designated as cash flow hedges. At 31 August 2012, the Group had no material un-hedged currency exposures.

The Group's euro and Australian dollar exposure is principally operational and arises mainly through the operation of retail stores in France, Ireland and Australia. The Group does not use derivatives to hedge balance sheet and profit and loss translation exposure.

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

£m	2012	2011
Fair value of derivative assets	–	–

At 31 August 2012, the total notional amount of outstanding forward foreign exchange contracts to which the Group has committed is US$25m (2011: US$47m). These instruments will be used to hedge cash flows occurring within up to two years of the balance sheet date. Gains totalling £nil (2011: £nil) have been transferred to both the income statement and inventories in respect of contracts that matured during the year ended 31 August 2012. In the year to 31 August 2012, the fair value loss on the Group's currency derivatives that are designated and effective as cash flow hedges amounted to £nil (2011: £nil).

Sensitivity analysis as at 31 August 2012

Financial instruments affected by market risks include borrowings, deposits and derivative financial instruments.

The following analysis, required by IFRS 7, Financial Instruments: Disclosures, is intended to illustrate the sensitivity to changes in market variables, being UK interest rates, and USD/GBP and EUR/GBP exchange rates.

The following assumptions were made in calculating the sensitivity analysis:

- Exchange rate fluctuations on currency derivatives that form part of an effective cash flow hedge relationship affect the hedging reserve in equity and the fair value of the hedging derivatives.
- Year end exchange rates applied in the analysis are USD/GBP 1.582/1 (2011: 1.635/1) and EUR/GBP 1.263/1 (2011: 1.130/1).
- Group debt and hedging activities remain constant, reflecting the positions at 31 August 2011 and 31 August 2012 respectively. As a consequence, the analysis relates to the position at those dates and is not necessarily representative of the years then ended.

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

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

	2012		2011	
£m	Income gains/(loss)	Equity gains/(loss)	Income gains/(loss)	Equity gains/(loss)
GBP LIBOR/Base rate interest rates 1% increase	–	–	–	–
USD/GBP exchange rates 10% increase	–	(1)	–	(3)
EUR/GBP exchange rates 10% increase	–	–	–	–
GBP LIBOR/Base rate interest rates 1% decrease	–	–	–	–
USD/GBP exchange rates 10% decrease	–	2	–	3
EUR/GBP exchange rates 10% decrease	–	–	–	–

24. Called up share capital

Allotted and fully paid

	2012 Number of shares (millions)	2012 Nominal value £m	2011 Number of shares (millions)	2011 Nominal value £m
Equity:				
Ordinary shares of 22⁶/₆₇p	130	29	139	31
Total	130	29	139	31

During the year the Company repurchased 9,393,040 of its own shares in the open market for an aggregate consideration of £50m. Since the balance sheet date, the Company has repurchased a further 278,000 of its own shares in the open market for an aggregate consideration of £2m.

During the year 296,493 ordinary shares were allotted under the terms of the Company's Sharesave Scheme. The effect of this allotment was to increase share premium by £1m to £3m (2011: £2m).

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

25. Share-based payments

Summary of movements in awards and options

Number of shares	Sharesave Schemes	Executive Share Option Schemes	2010 MIP	2008 MIP	LTIPs	Total	Weighted average exercise price (pence)
Outstanding at 1 September 2011	847,291	3,630,256	2,945,662	–	2,114,411	**9,537,620**	193.14
Options and awards granted	260,744	42,272	–	–	838,775	**1,141,791**	116.72
Options and awards exercised	(296,493)	(1,454,211)	–	–	(772,129)	**(2,522,833)**	240.83
Options and awards lapsed	(94,393)	(144,923)	(238,574)	–	(238,892)	**(716,782)**	146.75
Outstanding at 31 August 2012	**717,149**	**2,073,394**	**2,707,088**	**–**	**1,942,165**	**7,439,796**	**169.72**
Exercisable at 31 August 2012	**22,860**	**193,771**	**–**	**–**	**–**	**216,631**	**314.94**
Outstanding at 1 September 2010	1,093,816	3,937,862	–	3,922,603	1,655,732	**10,610,013**	135.54
Options and awards granted	–	1,128,344	3,178,075	–	729,984	**5,036,403**	107.13
Options and awards exercised	(163,515)	(1,174,278)	–	(3,791,059)	(205,336)	**(5,334,188)**	91.66
Options and awards lapsed	(83,010)	(261,672)	(232,413)	(131,544)	(65,969)	**(774,608)**	183.58
Outstanding at 31 August 2011	**847,291**	**3,630,256**	**2,945,662**	**–**	**2,114,411**	**9,537,620**	**193.14**
Exercisable at 31 August 2011	**45,281**	**363,478**	**–**	**–**	**–**	**408,759**	**336.57**

Detail of movements in options and awards

2010 Management Investment Plan (2010 MIP)

Under the terms of the 2010 Management Investment Plan, executive directors and key senior executives have invested their own money to buy ordinary shares in WH Smith PLC and have been granted matching awards (in the form of nil cost options in WH Smith PLC) to acquire further ordinary shares in proportion to the amount they have invested. These awards will only vest and become exercisable if underlying performance targets are met.

Outstanding awards granted under the 2010 MIP are as follows:

Date of grant	2012	2011	Exercise price (pence)	Exercise period
21 October 2010	**2,649,122**	2,887,696	Nil	Nov 2013 – Nov 2015
17 November 2010	**40,323**	40,323	Nil	Nov 2013 – Nov 2015
1 February 2011	**17,643**	17,643	Nil	Nov 2013 – Nov 2015
	2,707,088	2,945,662		

LTIPs

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

Outstanding awards granted under the LTIPs are as follows:

	Number of shares			
Date of grant	**2012**	2011	Exercise price (pence)	Exercise period
21 October 2008	**–**	843,635	Nil	Oct 2011 – 21.10.18
5 November 2009	**563,996**	591,682	Nil	Nov 2012 – 05.11.19
21 October 2010	**615,044**	668,219	Nil	Oct 2013 – 21.10.20
17 November 2010	**10,875**	10,875	Nil	Nov 2013 – 17.11.20
15 November 2011	**752,250**	–	Nil	Nov 2014 – 15.11.21
	1,942,165	2,114,411		

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

Sharesave Scheme

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

Outstanding options granted under the Sharesave Scheme at 31 August 2012 are as follows:

	Number of shares			
Date of grant	**2012**	2011	Exercise price (pence)	Exercise period
29 November 2006 (5 year)	**–**	160,138	295.20	01.02.12 – 31.07.12
4 June 2008 (3 year)	**–**	45,281	335.60	01.08.11 – 31.01.12
4 June 2008 (5 year)	**105,236**	106,979	335.60	01.08.13 – 31.01.14
3 June 2009 (3 year)	**22,860**	153,031	387.00	01.08.12 – 31.01.13
3 June 2009 (5 year)	**47,677**	52,041	387.00	01.08.14 – 31.01.15
2 June 2010 (3 year)	**238,341**	267,088	400.40	01.08.13 – 31.01.14
2 June 2010 (5 year)	**58,464**	62,733	400.40	01.08.15 – 31.01.16
30 November 2011 (3 year)	**244,571**	–	426.80	01.02.15 – 31.07.15
	717,149	847,291		

25. Share-based payments (continued)

Executive Share Option Schemes

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

Outstanding options granted under the Executive Share Option Schemes as at 31 August 2012 are as follows:

	Number of shares			
Date of grant	2012	2011	Exercise price (pence)	Exercise period
5 November 2002	**380**	380	263.00	05.11.05 – 04.11.12
20 November 2003	**19,782**	19,782	250.00	20.11.06 – 19.11.13
3 November 2004	**77,381**	77,381	247.00	03.11.07 – 02.11.14
2 November 2005	**–**	17,373	268.00	02.11.08 – 01.11.15
20 April 2006	**–**	6,299	321.00	20.04.09 – 19.04.16
19 October 2006	**–**	18,536	340.00	19.10.09 – 18.10.16
17 October 2007	**53,806**	223,727	381.00	17.10.10 – 16.10.17
21 October 2008	**42,422**	1,297,996	347.00	21.10.11 – 20.10.18
5 November 2009	**877,307**	942,940	497.37	05.11.12 – 04.11.19
21 October 2010	**960,044**	1,025,842	478.20	21.10.13 – 20.10.20
15 November 2011	**42,272**	–	520.17	15.11.14 – 14.11.21
	2,073,394	3,630,256		

Fair value information

£m	2012	2011
Weighted average share price at date of exercise of share options exercised during period – pence	**553.18**	475.50
Weighted average remaining contractual life at end of period – years	**6**	6

Share options and awards granted

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

£m	2012	2011
	4	17

The share options granted during each period have been valued using a Black-Scholes model. The inputs to the Black-Scholes model are as follows:

	2012	2011
Share price – pence	**525.00-527.50**	482.00
Exercise price – pence	**426.80-520.17**	478.00
Expected volatility – per cent	**28.10-31.74**	35.18
Expected life – years	**3.5-6.0**	5.0
Risk free rate – per cent	**0.83-1.24**	1.70
Dividend yield – per cent	**4.27-4.29**	4.03
Weighted average fair value of options – pence	**116.98**	106.00

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

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

	2012	2011
Share price – pence	**527.50**	465.00 – 481.90
Exercise price – pence	**Nil**	Nil
Expected volatility – per cent	**22.9**	30.7 – 32.1
Expected life – years	**3.0**	3.0
Risk free rate – per cent	**0.62**	0.84 – 1.14
Dividend yield – per cent	**4.27**	4.03 – 4.17
Weighted average fair value of options – pence	**423.74**	396.82

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

26. Related party transactions

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

Remuneration of key management personnel

The remuneration of the executive directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24, Related Party Disclosures.

Further information about the remuneration of individual directors is provided in the Directors' Remuneration report.

£'000	2012	2011
Short-term employee benefits	**2,735**	2,344
Post-employment benefits	**53**	175
Share-based payments	**2,816**	2,953
	5,604	5,472

There are no other transactions with directors.

27. Principal companies

The principal companies included within the financial statements, which are all wholly-owned, are disclosed below. A schedule of interests in all subsidiary undertakings is filed with the Annual Return.

Name	Country of incorporation/registration
WH Smith PLC	England and Wales
WH Smith Retail Holdings Limited	England and Wales
WH Smith High Street Holdings Limited	England and Wales
WH Smith Travel Holdings Limited	England and Wales
WH Smith High Street Limited	England and Wales
WH Smith Travel Limited	England and Wales
WH Smith Hospitals Holdings Limited (formerly UNS Group Limited)	England and Wales
WH Smith Hospitals Limited (formerly UNS Hospitals Limited)	England and Wales
WH Smith France S.A.S	France
WH Smith Ireland Limited	Ireland
WH Smith Jersey Limited	Jersey
WH Smith Asia Limited	Hong Kong

The Company has taken advantage of the exemption under Section 410 of the Companies Act 2006 by providing information only in relation to subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affected the financial statements.

Independent auditors' report

to the members of WH Smith PLC

We have audited the parent company financial statements of WH Smith PLC for the year ended 31 August 2012 which comprise the Company Balance Sheet and the related Notes 1 to 9. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the parent company's affairs as at 31 August 2012;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matters

We have reported separately on the Group financial statements of WH Smith PLC for the year ended 31 August 2012.

Stephen Griggs (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor

London, United Kingdom

11 October 2012

Company balance sheet

as at 31 August 2012

£m	Note	2012	2011
Fixed assets			
Investments	3	**357**	357
Total fixed assets		**357**	357
Current assets			
Debtors – amounts due within one year	4	**21**	99
Current liabilities			
Bank overdraft		**–**	(4)
Creditors – amounts due within one year	5	**(135)**	(129)
		(135)	(133)
Net current liabilities		**(114)**	(34)
Total net assets		**243**	323
Capital and reserves			
Called up share capital	8	**29**	31
Share premium	9	**3**	2
Capital redemption reserve	9	**8**	6
Profit and loss account	9	**203**	284
Total equity		**243**	323

The financial statements of WH Smith PLC, registered number 5202036, were approved by the Board of Directors on 11 October 2012.

Kate Swann
Group Chief Executive

Robert Moorhead
Group Finance Director

Notes to the Company balance sheet

1. Accounting policies

a) Basis of preparation

The financial statements are prepared in compliance with the Companies Act 2006 and in accordance with applicable United Kingdom law and accounting standards. The financial statements are prepared under the historical cost convention. The accounting policies have been applied consistently in the current and prior year.

b) Investment in subsidiary undertakings

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

c) Taxation

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

d) Cash flow statement

The Company is exempt from the requirement of FRS 1 (revised) to include a cash flow statement as part of its Company financial statements because it prepares a consolidated cash flow statement.

e) Related parties

The Company has taken advantage of paragraph 3 (c) of Financial Reporting Standard 8 'Related Party Disclosures' not to disclose transactions with Group entities or interests of the Group qualifying as related parties.

2. Profit for the year

The Company has not presented its own profit and loss account as permitted by Section 408 of the Companies Act 2006.

The profit for the year attributable to shareholders, which is stated on an historical cost basis, was £nil (2011: £260m) comprising investment income relating to dividends received from Group companies. There were no other recognised gains or losses.

3. Investments in subsidiary undertakings

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

4. Debtors – amounts due within one year

£m	2012	2011
Amounts owed by subsidiary undertakings	21	99
	21	99

5. Creditors – amounts due within one year

£m	2012	2011
Amounts owed to subsidiary undertakings	135	129
	135	129

6. 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.

7. Contingent liabilities

Contingent liabilities of £3m (2011: £2m) are in relation to insurance standby letters of credit.

8. Called up share capital

Allotted and fully paid

	2012		2011	
	Number of shares (millions)	Nominal value £m	Number of shares (millions)	Nominal value £m
Equity:				
Ordinary shares of 22 6/67p	**130**	**29**	139	31
Total	**130**	**29**	139	31

During the year the Company repurchased 9,393,040 of its own shares in the open market for an aggregate consideration of £50m. Since the balance sheet date, the Company has repurchased a further 278,000 of its own shares in the open market for an aggregate consideration of £2m.

Also during the year 296,493 ordinary shares were allotted under the terms of the Company's Sharesave Scheme. The effect of this allotment was to increase share premium by £1m to £3m (2011: £2m).

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

9. Reserves

£m	Share capital	Share premium	Capital redemption reserve	Profit and loss account	Total
Balance at 1 September 2011	31	2	6	284	323
Profit for the financial year	–	–	–	–	–
Purchase of own shares for cancellation	(2)	–	2	(50)	(50)
Premium on issue of shares	–	1	–	–	1
Equity dividends paid during the period	–	–	–	(31)	(31)
Balance at 31 August 2012	**29**	**3**	**8**	**203**	**243**

Five year financial summary – unaudited

Group Income Statement

£m	31 August 2012	31 August 2011	31 August 2010	31 August 2009	31 August 2008
Continuing operations					
Revenue	**1,243**	1,273	1,312	1,340	1,352
Group operating profit	**102**	93	89	83	74
Net finance (charges)/income	**–**	–	–	(1)	2
Profit before tax	**102**	93	89	82	76
Income tax expense	**(18)**	(20)	(20)	(18)	(17)
Profit after tax from continuing operations	**84**	73	69	64	59
Loss from discontinued operations	**–**	–	–	(1)	–
Profit for the period	**84**	73	69	63	59
Earnings per share					
Basic – continuing operations	**64.6p**	52.1p	47.6p	42.7p	36.4p
Diluted – continuing operations	**62.7p**	51.4p	45.7p	41.3p	35.3p
Basic	**64.6p**	52.1p	47.6p	42.0p	36.4p
Diluted	**62.7p**	51.4p	45.7p	40.6p	35.3p
Tax rate – continuing operations	**18%**	21%	23%	22%	23%

Segmental analysis of Group revenue

£m	31 August 2012	31 August 2011	31 August 2010	31 August 2009	31 August 2008
Travel	**462**	455	452	448	413
High Street	**781**	818	860	892	939
Group revenue	**1,243**	1,273	1,312	1,340	1,352

Segmental analysis of Group operating profit

£m	31 August 2012	31 August 2011	31 August 2010	31 August 2009	31 August 2008
Continuing operations:					
Travel	**63**	57	53	48	41
High Street	**54**	52	51	49	47
Trading profit	**117**	109	104	97	88
Unallocated costs	**(15)**	(16)	(15)	(14)	(14)
Group operating profit	**102**	93	89	83	74

Group Balance Sheet

£m	31 August 2012	31 August 2011	31 August 2010	31 August 2009	31 August 2008
Non-current assets					
Goodwill and other intangible assets	**54**	56	56	56	55
Property, plant and equipment	**155**	151	158	163	177
Deferred tax assets	**8**	7	10	9	11
Trade and other receivables	**4**	4	4	4	4
Total non-current assets	**221**	218	228	232	247
Current assets	**246**	259	285	262	241
Total assets	**467**	477	513	494	488
Current liabilities	**(295)**	(294)	(300)	(281)	(303)
Non-current liabilities					
Retirement benefit obligation	**(1)**	–	(1)	(2)	–
Other non-current liabilities	**(22)**	(27)	(26)	(23)	(24)
Total liabilities	**(318)**	(321)	(327)	(306)	(327)
Total net assets	**149**	156	186	188	161

Group Cash Flow Statement

	12 months to				
£m	31 August 2012	31 August 2011	31 August 2010	31 August 2009	31 August 2008
Cash flow from operating activities					
Generated from operating activities	**132**	128	124	130	111
Taxation (paid)/received	**(17)**	(10)	(20)	(17)	(7)
Cash flow from operating activities	**115**	118	104	113	104
Investing activities					
Interest received	**–**	–	1	1	4
Acquisitions and disposals of subsidiaries	**–**	(1)	–	–	(24)
Disposal of property, plant and equipment	**6**	5	–	–	3
Capital expenditure	**(43)**	(41)	(29)	(28)	(39)
Net cash from investing activities	**(37)**	(37)	(28)	(27)	(56)
Financing activities					
Interest paid	**–**	–	–	(1)	(1)
Dividend paid	**(31)**	(29)	(26)	(23)	(78)
Net purchase of own shares for employee share schemes	**(2)**	(12)	(4)	(8)	(9)
Repurchase of own shares	**(50)**	(55)	(35)	–	(33)
(Decrease)/increase in debt	**–**	–	(2)	(29)	13
Net cash used in financing activities	**(83)**	(96)	(67)	(61)	(108)
Net increase/(decrease) in cash and cash equivalents – continuing operations	**(5)**	(15)	9	25	(60)
Net increase/(decrease) in cash and cash equivalents	**(5)**	(15)	9	25	(60)

Group Cash Flow Statement (continued)

Analysis of net funds movement

£m	31 August 2012	31 August 2011	31 August 2010	31 August 2009	31 August 2008
			12 months to		
Operating profit	**102**	93	89	83	74
Share-based payments	**7**	8	7	6	6
Depreciation, amortisation and other amounts written off fixed assets	**39**	38	39	41	42
Movement in working capital	**–**	3	3	11	2
Net interest receivable/(payable)[1]	**–**	–	1	–	2
Capital expenditure	**(43)**	(41)	(29)	(28)	(39)
Sale and leaseback and disposal of fixed asset proceeds	**6**	5	–	–	3
Net tax paid	**(17)**	(10)	(20)	(17)	(6)
Provisions	**(3)**	–	(1)	(1)	(3)
Free cash flow (before dividends and investment activity)	**91**	96	89	95	81
Dividends	**(31)**	(29)	(26)	(23)	(78)
Pension funding	**(13)**	(14)	(13)	(10)	(10)
Premium on issue of shares	**1**	1	1	–	–
Acquisitions	**–**	(1)	–	–	(24)
Net purchase of own shares for employee share schemes	**(3)**	(13)	(5)	(8)	(9)
Repurchase of own shares	**(50)**	(55)	(35)	–	(33)
Net funds movement	**(5)**	(15)	11	54	(73)
Opening net funds/(debt)	**41**	56	45	(9)	64
Closing net funds/(debt)	**36**	41	56	45	(9)

[1] 2008 figures exclude £1m of interest received on prior-period tax overpayments.

Information for shareholders

Company Secretary and Registered Office

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

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

Company website

This Annual Report and Accounts together with other information, including the price of the Company's shares, Stock Exchange Announcements and frequently asked questions, can be found on the WH Smith PLC website at www.whsmithplc.co.uk.

Annual General Meeting

The Annual General Meeting will be held at Allen & Overy LLP, One Bishops Square, London E1 6AD on Wednesday 23 January 2013 at 11.30am. A separate notice convening the meeting is sent to shareholders, which includes an explanation of the items of special business to be considered at the meeting.

Shareholder enquiries – the registrars

All enquiries relating to shareholdings should be addressed to the registrars Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ. You can call the registrars on the shareholder helpline: 0871 495 0100 (calls to this number are charged at 8p per minute from a BT landline. Other telephony providers' costs may vary) or visit their website at www.investorcentre.co.uk. A textphone facility for shareholders with hearing difficulties is available by telephoning 0870 702 0005.

Sharedealing services

The Company is offering internet and telephone share dealing services for shareholders (in certain jurisdictions) in conjunction with Computershare. For internet dealing, log onto www.computershare.com/dealing/uk and for telephone dealing call 0870 703 0084. You will need to have your SRN to hand when making this call. This can be found on your Form of Proxy, email notification of availability of AGM documents or dividend tax voucher.

Dividend Mandates

If you wish dividends to be paid directly into your bank account through the BACSTEL-IP (Bankers' Automated Clearing Services) system, you should contact Computershare for a Dividend Mandate Form or apply online at www.investorcentre.co.uk.

Financial calendar

The following dates are given for information purposes only. Please check the WH Smith PLC website at www.whsmithplc.co.uk nearer the relevant time for full details, and to ensure that no changes have been made.

Financial year end	31 August 2012
Results announced	11 October 2012
Interim Management Statement	November 2012
Annual Report posted	December 2012
Final dividend ex-dividend date	2 January 2013
Final dividend record date	4 January 2013
Christmas trading statement	23 January 2013
AGM	23 January 2013
Final dividend payment date	31 January 2013
Half-year end	28 February 2013
Interim results announced	April 2013
Interim dividend ex-dividend date	June 2013
Interim dividend record date	June 2013
Interim dividend payment date	July 2013
Interim Management Statement	July 2013
Financial year end	31 August 2013

The dividend dates shown above are in respect of the Company's ordinary shares of $22^{6}/_{67}$p.

ShareGIFT

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

Warning to Shareholders – Boiler Room Scams

In recent years, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. These operations are commonly known as 'boiler rooms'. These 'brokers' can be very persistent and extremely persuasive, and a 2006 survey by the Financial Services Authority (FSA) has reported that the average amount lost by investors is around £20,000.

It is not just the novice investor that has been duped in this way; many of the victims had been successfully investing for several years. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports. If you receive any unsolicited investment advice:

- Make sure you get the name of the person and organisation contacting you.
- Check whether the firm is properly authorised by the FSA before getting involved by visiting: www.fsa.gov.uk/fsaregister
- If you are concerned as to their authenticity, report the matter to the FSA by calling 0845 606 1234.

If you are approached about a share scam you should tell the FSA using the share fraud reporting form at www.fsa.gov.uk/scams, where you can find out about the latest investment scams. You can also call the Consumer Helpline on 0845 606 1234.

If you deal with an unauthorised firm, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme if things go wrong.

Details of any share dealing facilities that the Company endorses will be included in Company mailings.

UK Capital Gains Tax

Demerger 31 August 2006

Following the demerger of the Company on 31 August 2006, in order to calculate any chargeable gains or losses arising on the disposal of shares after 31 August 2006, the original tax base cost of your ordinary shares of $2^{13}/_{81}$p (adjusted if you held your shares on 24 September 2004 and 22 May 1998 to take into account the capital reorganisations of 27 September 2004 and 26 May 1998 respectively (see below)) will have to be apportioned between the shareholdings of ordinary shares of 20p in the Company and ordinary shares of 5p in Smiths News.

The cost of your shareholding of ordinary shares of 20p in the Company is calculated by multiplying the original base cost of your ordinary shares of $2^{13}/_{81}$p (adjusted where necessary to take into account the capital reorganisations of 24 September 2004 and 26 May 1998 (see below)) by 0.69585.

The cost of your shareholding of ordinary shares of 5p is calculated by multiplying the original base cost of your ordinary shares of $2^{13}/_{81}$p (adjusted where necessary to take into account the capital reorganisations of 24 September 2004 and 26 May 1998 (see below)) by 0.30415.

As a result of the share consolidation on 22 February 2008, the nominal value of the Company's ordinary shares increased from 20p per ordinary share to $22^{6}/_{67}$p per ordinary share.

Capital reorganisation 27 September 2004

If you acquired your shareholding on or before 24 September 2004, in order to calculate any chargeable gains or losses arising on the disposal of shares after 24 September, the original tax base cost of your ordinary shares of $55^{5}/_{9}$p (adjusted if you held your shares on 22 May 1998 to take into account the capital reorganisation of 26 May 1998 (see below)) will have to be apportioned between the shareholdings of ordinary shares of $2^{13}/_{81}$p and 'C' shares resulting from the capital reorganisation.

The cost of your shareholding of ordinary shares of $2^{13}/_{81}$p is calculated by multiplying the original base cost of your ordinary shares of $55^{5}/_{9}$p (adjusted where necessary to take into account the capital reorganisation of 26 May 1998 (see below)) by 0.73979.

Capital reorganisation 26 May 1998

If you acquired your shareholding on or before 22 May 1998, in order to calculate any chargeable gains or losses arising on the disposal of shares after 22 May 1998, the original tax base cost of your ordinary shares of 50p will have to be apportioned between the shareholdings of ordinary shares of $55^{5}/_{9}$p and redeemable 'B' shares resulting from the capital reorganisation.

The cost of your shareholding of ordinary shares of $55^{5}/_{9}$p is calculated by multiplying the original cost of your ordinary shares of 50p by 0.90714.

March 1982 values

If you acquired your shareholding on or before 31 March 1982, in order to calculate any chargeable gains or losses arising on disposal of shares, the tax base cost of your ordinary shares used the 31 March 1982 base values per share as follows:

	Arising from an original shareholding of	
	'A' ordinary shares	'B' ordinary shares
Ordinary shares of 20p	61.62p	50.92p
Smiths News PLC ordinary shares of 5p	26.93p	22.25p

If you have a complicated tax position, or are otherwise in doubt about your tax circumstances, or if you are subject to tax in a jurisdiction other than the United Kingdom, you should consult your professional adviser.

'Company' means WH Smith PLC, a public limited company incorporated in England and Wales with registered number 5202036; and 'Group' means the Company and its subsidiaries and subsidiary undertakings.

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