

# Remuneration Report

## Anthony Cann

Chairman of the  
Remuneration Committee



*Dear Shareholder,*

On behalf of the Board, I am pleased to present the directors' Remuneration Report for the year ended 31 August 2011.

As in previous years, the Remuneration Committee reviews executive remuneration arrangements in order that they are effective in supporting the business strategy and continue to be aligned with the interests of our shareholders. The following sets out a number of key decisions and outcomes in relation to our executive arrangements:

- **Delay of share-based awards.** Owing to the Company being in a prohibited period while negotiating the acquisition of Dawson Holdings PLC, and subsequently awaiting HMRC guidance on the operation of the Disguised Remuneration legislation enacted on 19 July 2011, share awards (deferred shares under the Annual Bonus Plan and Economic Profit Plan (EPP), and the LTIP) which were to have been made in October 2010 (deferred shares) and November 2010 (LTIP), were not granted until 11 August 2011.
- **Salaries.** Following a review in December 2010, executive director salaries were increased by c.1%, in line with salary increases throughout the Group. The exception was Jonathan Bunting, whose salary was increased from £200,000 to £215,000 (+7.5%) in recognition of performance in the role (appointed April 2010) and to bring his salary to market competitive levels.

- **No increase in maximum incentive opportunity.** There was no increase in the maximum opportunity under the Annual Bonus Plan, EPP and the LTIP. The overall incentive opportunity is 200% of salary for the Chief Executive (100% annual bonus, 50% EPP and 50% LTIP) and 155% of salary for other executive directors (80% annual bonus, 40% EPP and 35% LTIP).

### 2011/12 executive remuneration

In view of the considerable and important challenges that will require exceptional performance by management to deliver the significant growth and change which is planned over the next three years, the Committee is considering granting a one-off additional award under the LTIP in the year ending 31 August 2012 only, to motivate and reward those critical to success over this key period.

In addition, the EPP is being changed to make payments into the pool a considerably smaller percentage of economic profit and varied by the level of performance (further details on the proposed changes to the EPP can be found in the Remuneration Report on page 64).

The Committee takes an active interest in and welcomes shareholder views. We also pay close attention to the voting on the Remuneration Report (set out below) and hope to receive your support at the forthcoming AGM.

### Anthony Cann

Chairman of the Remuneration Committee

# Remuneration Report continued

This report has been prepared on behalf of the Board by the Remuneration Committee. The Committee has adopted the principles of good governance as set out in the UK Corporate Governance Code. The report has been prepared in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and satisfies the requirements of 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 2011. Shareholders will be asked to approve the report at the Annual General Meeting on 27 January 2012.

## Part A – Unaudited Remuneration Committee

The Remuneration Committee is chaired by Anthony Cann and its other members throughout the year were Andrew Brent, Dennis Millard and John Worby. Anthony Cann, Andrew Brent and John Worby are all independent non-executive directors and Dennis Millard was independent on appointment as Chairman. The Committee met six times during the year.

The Committee's terms of reference, which are available on the Company's website and from the Company Secretary on request, set out the responsibilities of the Committee which include:

- determining and agreeing with the Board the broad policy for the remuneration of the Chairman, executive directors and certain other senior executives;
- reviewing the ongoing appropriateness and relevance of the remuneration policy;
- reviewing the policy for any performance related pay schemes operated for those below executive management level and approving total annual payments made under all performance related pay schemes;
- reviewing the design of all short and long term incentive plans for approval by the Board and, where required, by shareholders;
- determining the policy for the grant of share incentives to executive directors and senior executives, setting appropriate performance targets and approving the quantum of grants and vesting schedules;
- ensuring that contractual terms on termination, and any payments made, are fair to the individual and the Company, 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.

During the year the Committee received external advice and services from its independent adviser, Deloitte LLP ('Deloitte'). Deloitte also provided audit services to the Company. The Committee is satisfied that the remuneration advice it receives from Deloitte is independent. Glenn Leech, Group Human Resources Director, also materially assisted the Committee in carrying out its duties, except in relation to his own remuneration.

## Remuneration policy

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

The aims of the policy are achieved by providing a remuneration package, comprising salary and benefits, positioned around the median of a comparator group of peer companies, pension provision and performance related benefits. Any payments made to executive directors other than salary are not pensionable. The performance related benefits, which consist of an annual bonus, an economic profit bonus and long-term incentive ('LTIP'), account for a significant proportion of total remuneration.

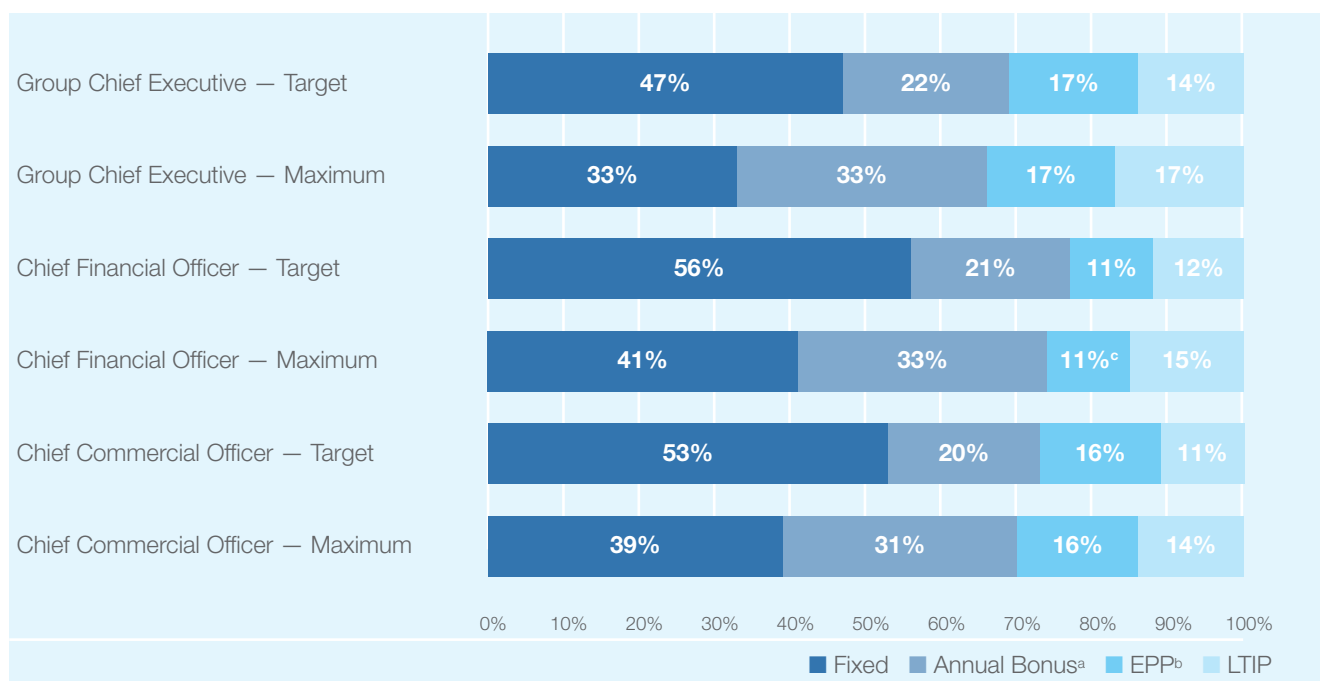
In line with the Association of British Insurers' Guidelines on Responsible Investment Disclosure, the Committee will ensure that the incentive structure for executive directors and senior management will not raise environmental, social or governance ('ESG') risks by inadvertently motivating irresponsible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

Under our current policy, the overall maximum incentive opportunity is 200% of salary for Mark Cashmore and 155% of salary for Jonathan Bunting and Nick Gresham. For Mark Cashmore, this comprises an annual bonus opportunity of 100% of base salary, an economic profit bonus opportunity of 50% of base salary and an LTIP opportunity of 50% of base salary. For Jonathan Bunting and Nick Gresham, it comprises an annual bonus opportunity of 80% of base salary, an economic profit bonus opportunity of 40% of base salary and an LTIP opportunity of 35% of base salary. Nick Gresham's economic profit bonus opportunity is capped at 13% of base salary for the year ended 31 August 2011 and at 27% of base salary for the year ending 31 August 2012. Also, it has been decided that the proportion of the annual bonus and economic profit bonus to be paid in the form of deferred shares will remain unchanged at 33% and 50% respectively.

The Annual Bonus Plan, Economic Profit Plan ('EPP') and LTIP are described in more detail below.

### Relative value of remuneration package 2011/12

The charts below show the expected relative value at target and maximum performance levels of the fixed and performance-related elements of the executive directors' remuneration package for the financial year ending 31 August 2012.



a) 33% of the annual bonus will be paid in the form of shares, the receipt of which is deferred for two years (see Deferred Bonus Plan below).

b) 50% of the EPP bonus will be paid in the form of shares, the receipt of which is deferred for two years (see Deferred Bonus Plan below).

c) As a new joiner in FY 2010/11, Nick Gresham's maximum EPP bonus opportunity is 27% of base salary (two thirds of 40%), representing 11% of his total remuneration package.

d) The above charts do not include the value of other benefits such as the provision of a company car, private medical insurance and employer pension contributions or, if awarded, the additional LTIP mentioned in the letter from the Chairman of the Committee on page 61.

### Salary and benefits

The salaries of executive directors are reviewed annually in December, with any new salaries taking effect from 1 January. When conducting any 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 a comparable group of companies, the responsibilities, individual performance and experience of each executive director and the level of salary increases awarded to employees throughout the Group.

Following the review in December 2010, the salary of Mark Cashmore was increased from £320,000 to £323,000 (0.9%), the salary of Jonathan Bunting was increased from £200,000 to £215,000 (7.5%), and the salary of Nick Gresham was increased from £230,000 to £232,500 (1.1%).

The Committee recognises that in the current economic environment salary increases should be kept to a minimum

and be in line with salary increases throughout the Group.

The average salary increases throughout the Group for 2011 were 1%. Jon Bunting was appointed to the new role of Chief Commercial Officer on 1 April 2010. In recognition of his performance and following a benchmarking review, his salary was increased by 7.5% to bring it in line with market competitive levels.

Executive directors also receive taxable benefits including the provision of a company car and private medical insurance.

The fees paid to non-executive directors are determined by the Chairman and the executive members of the Board and take into account the required time commitment and the fee payments for non-executive directors of similar organisations. There were no changes to the fees paid to non-executive directors during the year under review. Non-executive directors do not participate in any bonus or share schemes.

# Remuneration Report continued

## Annual Bonus Plan

The plan is designed so that the level of bonus paid is dependent on the achievement of an underlying profit before tax target and on personal performance, set at the beginning of each year. Target level is based on the achievement of stretching performance; maximum level requires outstanding performance.

For the year under review, Mark Cashmore had the opportunity to receive an annual bonus up to a maximum of 100% of base salary (47.5% at target level) and Jonathan Bunting and Nick Gresham had the opportunity to receive an annual bonus up to a maximum of 80% of base salary (37.5% at target level), one third of which is payable in the form of shares, the receipt of which is deferred for two years (see Deferred Bonus Plan below).

As a result of exceeding the target profit before tax of £38m and personal performance, Mark Cashmore's annual bonus for the year under review is £193,449, representing 59.9% of base salary, of which £128,966 will be paid in cash in November 2011 and £64,483 will be paid in the form of shares. Jonathan Bunting's annual bonus for the year under review is £112,408, representing 52.3% of base salary, of which £74,939 will be paid in cash in November 2011 and £37,469 will be paid in the form of shares. Nick Gresham's annual bonus for the year under review is £109,932, representing 47.3% of base salary, of which £73,288 will be paid in cash in November 2011 and £36,644 will be paid in the form of shares.

For the year ending 31 August 2012, the annual bonus opportunity for Mark Cashmore, Jonathan Bunting and Nick Gresham will remain unchanged.

## Economic Profit Plan

Under this plan, which was introduced in 2008, executive directors and key senior executives may receive each year a cash payment and/or be granted a share award under the terms of the Deferred Bonus Plan, based on the value of an economic profit pool (the 'Pool'). The value of the Pool is determined by the economic profit (calculated as profit after tax less the cost of capital employed) created in each financial year, with up to 10% of this economic profit being contributed to the Pool (if there is an economic loss in any year the value of the Pool will be diminished). One third of the Pool is then distributed to participants each year (allocated in the proportion of each participant's base salary to the participants' total base salaries) and two thirds is carried forward to form part of the Pool for the following year. The main objectives of the plan are to retain key executives and to incentivise the executive management team to generate profits over and

above the Group's cost of capital. Mark Cashmore receives an allocation of up to 50% of base salary and Jonathan Bunting receives an allocation of up to 40% of base salary. Given the nature of the plan, an executive's entitlement will build up during the first three years of participation. As such, Nick Gresham is able to receive an allocation of up to 13% of base salary in the year ended 31 August 2011, 27% of base salary in the year ending 31 August 2012 and 40% of base salary in the year ending 31 August 2013. It is current policy that 50% of the annual payout will be in cash and 50% will be in the form of deferred shares (see Deferred Bonus Plan below). However, the Committee reserves the right to change these proportions for future years in light of the circumstances prevailing at the time.

The Committee has recently reviewed the operation of the plan and, whilst it believes it has worked effectively, the following changes will be introduced from 2011/12:

- To increase the incentive to generate profits over and above the Group's cost of capital, the percentage of economic profit paid into the Pool each year will depend on the achievement of economic profit targets set annually based on the business plan, with 2.5% of economic profit being paid into the Pool for achievement of the minimum economic profit target, 5% of economic profit being paid into the Pool for achievement of the target economic profit and 7.5% of economic profit being paid into the Pool for achievement of the maximum economic profit target;
- In line with good governance practice, the plan rules have been amended to include a clawback clause, whereby in the event of a material mis-statement of the financial results, participants may within a period of one year be required to reimburse to the Company part or all of any payment received.

These changes will be implemented irrespective of whether the Committee decides to grant a one-off additional award under the LTIP in the year ending 31 August 2012, as mentioned in the letter from the Chairman of the Committee on page 61.

The economic profit generated in the year to 31 August 2011 resulted in a contribution to the Pool of £612,000, bringing the total value of the Pool to £1,247,000. Of this Pool, Mark Cashmore will receive £128,008, representing 39.6% of base salary, Jonathan Bunting will receive £70,513, representing 32.8% of base salary and Nick Gresham will receive £25,442, representing 10.9% of base salary. Of these payouts, half will be paid in cash in November 2011 and half will be paid in the form of shares.

## Deferred Bonus Plan

Under this plan, executive directors and key senior executives may be granted each year share awards (in the form of nil cost options) representing a proportion of the bonuses earned under the Annual Bonus Plan and/or Economic Profit Plan. The awards are normally exercisable after a holding period of two years, subject to continued employment.

Owing to the Company being in a prohibited period while negotiating the acquisition of Dawson Holdings PLC, and subsequently awaiting HMRC guidance on the operation of the Disguised Remuneration legislation enacted on 19 July 2011, the awards which were to have been granted to Mark

Cashmore and Jonathan Bunting on 26 October 2010, in respect of performance in the year ended 31 August 2010, were not granted until 11 August 2011.

As described under Annual Bonus Plan and Economic Profit Plan, for performance in the year under review, Mark Cashmore, Jonathan Bunting and Nick Gresham will be granted share awards under this plan with market values at the date of grant of £64,483, £37,469 and £36,644 respectively in connection with the Annual Bonus Plan and £64,004, £35,256 and £12,721 respectively in connection with the Economic Profit Plan. These awards will be granted in November 2011.

## Long-term incentives Smiths News LTIP

Under this plan, executive directors and key senior executives may be awarded each year conditional entitlements to ordinary shares in the Company (in the form of nil cost options) or, in order to retain flexibility and at the Company's discretion, a cash sum linked to the value of a notional award of shares up to a value of 200% of base salary.

The vesting of awards is subject to the satisfaction of a performance condition, which is determined by the Remuneration Committee at the time of grant. The Committee believes that for executive directors and Smiths News senior executives earnings per share ('EPS') is the most appropriate measure of the Company's performance.

For awards granted on 15 November 2007, the performance condition is based on real growth in the Company's EPS over the three years ended 31 August 2010 (the 'Performance Period') as set out in the following table.

Annual rate of growth in EPS (compounded annually) in excess of growth in RPI over the Performance Period	Proportion exercisable
Below 3%	Zero
3%	35%
Pro-rating applies between these points	Between 35% and 100%
9% or more	100%

This performance condition was not met and, as such, these awards lapsed on 21 October 2010.

In light of the prevailing business environment, for awards granted to the executive directors and Smiths News senior executives on 30 April 2009, 26 November 2009 and 11 August 2011, the performance condition is based on the Company's aggregate absolute EPS over the three years ended 31 August 2011, three years ending 31 August 2012 and three years ending 31 August 2013 respectively (the 'Performance Period') as set out in the following table.

Date of Grant	Aggregate EPS performance over the Performance Period	Proportion exercisable
30 April 2009	Below 41p	Zero
	41p	20%
	Pro-rating applies between these points	Between 20% and 100%
26 November 2009	45p or more	100%
	Below 42.5p	Zero
	42.5p	20%
11 August 2011	Pro-rating applies between these points	Between 20% and 100%
	47.5p or more	100%
	Below 47p	Zero
	47p	20%
	Pro-rating applies between these points	Between 20% and 100%
	51.5p or more	100%

## Remuneration Report continued

For the purposes of the above targets, EPS is determined by reference to basic earnings per share, as defined by IAS 33, before non-recurring items and their associated tax impact, adjusted by the Committee as considered appropriate to ensure consistency.

Measured on the basis described above, aggregate EPS over the three years ended 31 August 2011 is 43.9p, and has resulted in 78% of the awards granted on 30 April 2009 being exercisable from 20 October 2011.

The Company did not grant the 2010 awards, which would normally have been granted in November 2010, until 11 August 2011 for the reasons described under Deferred Bonus Plan. In the light of the delay in making the awards, the performance period applicable to these awards was maintained as the three years to 31 August 2013.

### Smiths News 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% of base salary. The performance condition for options granted in November 2007 is based on real growth in the Company's EPS and is the same as the 2007 LTIP performance condition described above. This condition was not met and, as such, these options lapsed on 21 October 2010. Options granted in November 2008 are only exercisable if the Company's underlying profit before tax for the year ended 31 August 2011 is more than £30m. The Company's underlying profit before tax for the year ended 31 August 2011 is £38.6m and, as such, these options will be exercisable from 27 November 2011. Options granted in November 2009 and June 2011 will only be exercisable if the Company's underlying profit before tax for the year ending 31 August 2012 and 31 August 2013 exceeds £30.5m and £35m respectively. The Committee will conduct its annual review of the performance condition prior to the grant of options in November 2011. The executive directors did not participate in this Scheme in the financial year ended 31 August 2011 and will not participate in the current financial year; and
- b) an HM Revenue and Customs Approved Save-As-You-Earn share option scheme (the 'Sharesave Scheme'). The Sharesave Scheme is open to all employees who have completed one year's service and who enter an approved savings contract for a term of three or five years. The maximum amount which can be saved is £250 per month, the total savings at the end of the term being used to

purchase shares at 80% of their market value at the start of the savings contract. In common with most schemes of this type, there are no performance conditions applicable to options granted under the Sharesave Scheme.

### WH Smith Executive Share Option Scheme 1999 (pre-demerger)

For options granted in 2004 and 2005, prior to the demerger of WH Smith PLC on 31 August 2006, the performance condition is based on the Company's adjusted EPS growth over a fixed three-year period, the proportion of options that become exercisable increasing on a straight-line basis from 40% for growth of RPI plus 9% to 100% for growth of RPI plus 15%.

For those options granted in November 2004, adjusted EPS growth exceeded RPI plus 15% over the three year period ended 31 August 2007 and, as such, these options became exercisable in full on 3 November 2007.

For those options granted in November 2005, adjusted EPS growth exceeded RPI plus 15% over the three year period ended 31 August 2008 and, as such, these options became exercisable in full on 2 November 2008.

### Personal shareholdings

The Company's shareholding guidelines require executive directors to build up over a period of five years and then maintain a target holding of 100% of salary and other members of the executive management team to build up over a period of five years and then maintain a target holding of 75% of salary.

### 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
Jonathan Bunting	1 April 2010	One year	Nine months
Mark Cashmore	4 July 2006	One year	Nine months
Nick Gresham	23 August 2010	One year	Nine months

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

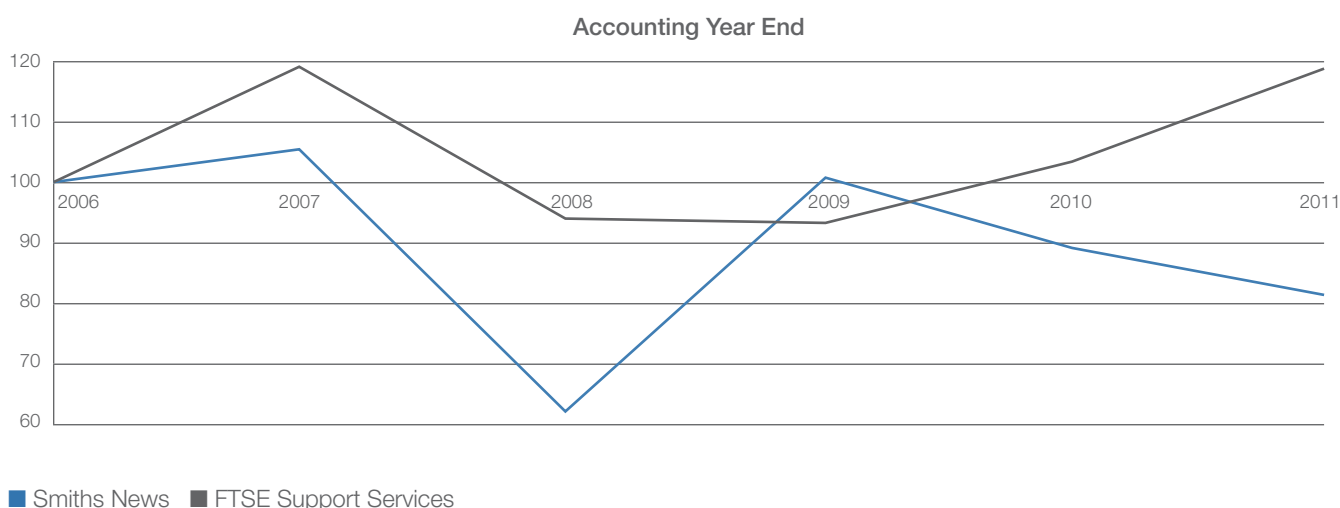
The Chairman and other non-executive directors, who have letters of appointment, are appointed for an initial term of three years, which may be terminated at any time upon three months' written notice on either side, and are subject to review thereafter. The letters of appointment of the non-executive directors are available for inspection at the Company's registered office during normal business hours and at the AGM.

### Performance graph

The following graph shows the Total Shareholder Return ('TSR') performance of the Company since 31 August 2006, against the FTSE Support Services Sector (which was chosen because it represents a broad equity market index of which the Company is a constituent).

TSR was calculated by reference to the growth in share price, as adjusted for reinvested dividends.

#### Cumulative TSR Based to 100



### Smiths News Employee Benefit Trust

The Smiths News Employee Benefit Trust is used to facilitate the acquisition of ordinary shares in the Company for the purpose of satisfying awards and options granted under the Company's executive share schemes including the pre-demerger share scheme. The Trust is a discretionary trust, the sole beneficiaries being employees (including executive directors) and former employees of the Company. The Trust waives its right to vote and to dividends on the shares that it holds. The Trustee is EES Trustees International Limited, an independent professional trustee company based in Jersey.

The number of shares held in the Smiths News Employee Benefit Trust at 31 August 2011 was 2,470,835. The accounting treatment is shown in the Group Statement of Changes in Equity on page 79.

### Dilution limits

Share awards and executive share options are usually satisfied using market purchase shares. The Company'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 two defined contribution pension schemes, the money purchase section of the WH Smith Pension Trust, for those employees who were active members of the defined benefit section of the WH Smith Pension Trust on 1 May 2007 and the WH Smith Retirement Savings Plan. The Company ceased service accruals for active members of the defined benefit pension scheme on 1 May 2007.

## Remuneration Report continued

Jonathan Bunting participates in the money purchase section of the WH Smith Pension Trust. The other executive directors participate in the Smiths News section of the WH Smith Retirement Savings Plan. Under these plans an executive director may contribute up to an amount equivalent to 5% of salary which is then matched by the Company. In addition, a salary supplement, in respect of pension entitlement, 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 2011, for Mark Cashmore the salary supplement was equivalent to 25% of salary and for Jonathan Bunting and Nick Gresham it was equivalent to 20% of salary.

### External appointments

It is the Company's policy to allow each executive director to accept one non-executive directorship of a publicly quoted company provided that it is not a chairmanship of a FTSE 100 company and it does not conflict with the interests of the Company. Executive directors may retain the fee for such an appointment. The executive directors do not currently hold any non-executive directorships.

### Part B – Audited Directors' remuneration

The remuneration of the directors for the financial year ended 31 August 2011 was as follows:

	Salary/fees £'000	Annual Bonus £'000	Economic Profit Plan £'000	Pension Supplement and benefits £'000	Total £'000	Year to 31 August 2010 £'000
<b>Executive</b>						
Jonathan Bunting	210	75	35	24	<b>344</b>	144
Mark Cashmore	322	129	64	76	<b>591</b>	646
Nick Gresham	232	73	13	58	<b>376</b>	24
Alan Humphrey	—	—	—	—	—	396
<b>Non-executive</b>						
Dennis Millard (Chairman)	110	—	—	—	<b>110</b>	110
Andrew Brent	35	—	—	—	<b>35</b>	35
Anthony Cann	40	—	—	—	<b>40</b>	40
John Worby	40	—	—	—	<b>40</b>	40
<b>Total</b>	<b>989</b>	<b>277</b>	<b>112</b>	<b>158</b>	<b>1,536</b>	<b>1,435</b>

- a) Pension supplement and benefits: this includes any pension salary supplement taken as an addition to basic pay, the provision of a company car and private medical insurance.
- b) Jonathan Bunting earned an annual bonus of £112,408, of which £37,469 is in the form of shares, the receipt of which is deferred for two years, subject to continued employment. This share award will be granted in November 2011.
- c) Mark Cashmore earned an annual bonus of £193,449, of which £64,483 is in the form of shares, the receipt of which is deferred for two years, subject to continued employment. This share award will be granted in November 2011.
- d) Nick Gresham earned an annual bonus of £109,932, of which £36,644 is in the form of shares, the receipt of which is deferred for two years, subject to continued employment. This share award will be granted in November 2011.
- e) Jonathan Bunting will receive an Economic Profit Plan payout of £70,513, of which £35,256 is in the form of shares, the receipt of which is deferred for two years, subject to continued employment. This share award will be granted in November 2011.
- f) Mark Cashmore will receive an Economic Profit Plan payout of £128,008, of which £64,004 is in the form of shares, the receipt of which is deferred for two years, subject to continued employment. This share award will be granted in November 2011.
- g) Nick Gresham will receive an Economic Profit Plan payout of £25,442, of which £12,721 is in the form of shares, the receipt of which is deferred for two years, subject to continued employment. This share award will be granted in November 2011.
- h) Jonathan Bunting was appointed as a director of the Company on 1 April 2010. The value shown in the table in respect of the prior year is in respect of the period 1 April to 31 August 2010.
- i) Nick Gresham was appointed as a director of the Company on 1 August 2010. The value shown in the table in respect of the prior year is in respect of the period 1 August to 31 August 2010.
- j) Alan Humphrey resigned as a director on 31 August 2010 and left the Company on 12 August 2011. As reported in the Annual Report 2010, he earned cash bonuses of £100,000 (Annual Bonus Plan) and £22,987 (Economic Profit Plan) in respect of the financial year ended 31 August 2010. These were paid in November 2010 and are included in his total remuneration for the prior year.
- k) All of the directors, with the exception of Alan Humphrey, served throughout the year.

## Directors' pensions

### Defined contribution schemes

Jonathan Bunting was a member of the Smiths News section of the WH Smith Pension Trust during the year ended 31 August 2011. Mark Cashmore and Nick Gresham were members of the Smiths News section of the WH Smith Retirement Savings Plan during the year ended 31 August 2011.

Directors' pension contributions during the year were as follows:

	Employee contribution		Employer contribution	
	% of salary	£'000	% of salary	£'000
Jonathan Bunting	24	51	5	11
Mark Cashmore	13	42	5	16
Nick Gresham	5	11	5	11

- Executive directors receive a salary supplement which may be taken as an additional pension contribution or as an addition to basic pay; this payment if taken as an addition to basic pay is included in the table of directors' remuneration under the heading Pension supplement and benefits.
- Jonathan Bunting received a salary supplement of 20% of salary, 19% of which was taken as an additional pension contribution and is included in the Employee contribution in the above table and 1% of which was taken as an addition to basic pay and is included in the table of directors' remuneration.
- Mark Cashmore received a salary supplement of 25% of salary, 8% of which was taken as an additional pension contribution and is included in the Employee contribution in the above table and 17% of which was taken as an addition to basic pay and is included in the table of directors' remuneration.
- Nick Gresham received a salary supplement of 20% of salary, all of which was taken as an addition to basic pay and is included in the table of directors' remuneration.
- The dependants of Jonathan Bunting are eligible for payment of a lump sum in the event of death-in-service equivalent to eight times salary. The dependants of the other executive directors are eligible for payment of a lump sum in the event of death-in-service equivalent to four times salary.

# Remuneration Report continued

## Directors' deferred share awards Smiths News Deferred Bonus Plan

Details of the deferred share awards (in the form of nil cost options) granted to executive directors under the Smiths News Deferred Bonus Plan (arising from the Annual Bonus Plan and Economic Profit Plan), are as follows:

	Date of Grant	Number of shares subject to awards at 1 September 2010	Number of shares subject to awards granted during the year	Number of shares subject to awards at 31 August 2011	Share price at date of grant (pence)	Exercise period
<b>Jonathan Bunting</b>						
Annual Bonus Plan	26.11.09	48,837	—	<b>48,837</b>	107.50	26.11.11–26.11.12
Economic Profit Plan	26.11.09	10,620	—	<b>10,620</b>	107.50	26.11.11–26.11.12
Annual Bonus Plan	11.08.11	—	59,025	<b>59,025</b>	84.71	26.10.12–26.10.13
Economic Profit Plan	11.08.11	—	27,215	<b>27,215</b>	84.71	26.10.12–26.10.13
<b>Total</b>		59,457	86,240	<b>145,697</b>		
<b>Mark Cashmore</b>						
Annual Bonus Plan	26.11.09	102,326	—	<b>102,326</b>	107.50	26.11.11–26.11.12
Economic Profit Plan	26.11.09	20,860	—	<b>20,860</b>	107.50	26.11.11–26.11.12
Annual Bonus Plan	11.08.11	—	125,920	<b>125,920</b>	84.71	26.10.12–26.10.13
Economic Profit Plan	11.08.11	—	52,871	<b>52,871</b>	84.71	26.10.12–26.10.13
<b>Total</b>		123,186	178,791	<b>301,977</b>		

- a) Full details of the Annual Bonus Plan, Economic Profit Plan and Deferred Bonus Plan are set out on pages 64 and 65.  
 b) There are no further performance conditions attached to these awards, which are exercisable subject only to continued employment.  
 c) No option price is payable on either the grant or exercise of any award.  
 d) The holding period for awards granted on 11 August 2011, which were to have been granted on 26 October 2010, will end on 26 October 2012.  
 e) No awards have been exercised during the year ended 31 August 2011.  
 f) No awards have lapsed during the year ended 31 August 2011.  
 g) No awards have been granted to or exercised by directors between 1 September 2011 and 20 October 2011.

## Directors' long-term incentive schemes

### Smiths News LTIP

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

	Date of Grant	Number of shares subject to awards at 1 September 2010	Number of shares subject to awards granted during the year	Number of shares subject to awards lapsed during the year	Number of shares subject to awards at 31 August 2011	Share price at date of grant (pence)	Exercise period
<b>Jonathan Bunting</b>							
2007	15.11.07	50,601	—	50,601	—	110.67	—
2008	30.04.09	61,146	—	—	<b>61,146</b>	100.17	Oct 2011–30.04.19
2009	26.11.09	65,116	—	—	<b>65,116</b>	107.50	Oct 2012–26.11.19
2010	11.08.11	—	88,832	—	<b>88,832</b>	84.71	Oct 2013–11.08.21
<b>Total</b>		176,863	88,832	50,601	<b>215,094</b>		
<b>Mark Cashmore</b>							
2007	15.11.07	124,243	—	124,243	—	110.67	—
2008	30.04.09	137,267	—	—	<b>137,267</b>	100.17	Oct 2011–30.04.19
2009	26.11.09	148,837	—	—	<b>148,837</b>	107.50	Oct 2012–26.11.19
2010	11.08.11	—	190,650	—	<b>190,650</b>	84.71	Oct 2013–11.08.21
<b>Total</b>		410,347	190,650	124,243	<b>476,754</b>		
<b>Nick Gresham</b>							
2010	11.08.11	—	310,146	—	<b>310,146</b>	84.71	Oct 2013–11.08.21
<b>Total</b>		—	310,146	—	<b>310,146</b>		

- a) The number of shares subject to awards is the maximum (100%) number of shares that could be received by the director if the performance targets as set out on page 65 are fully met.
- b) The threshold EPS performance target applicable to the awards granted on 15 November 2007 was not achieved and, as such, these awards lapsed on 21 October 2010.
- c) No option price is payable on either the grant or exercise of any award.
- d) The award granted to Nick Gresham on 11 August 2011 in respect of 310,146 shares comprises a normal award of 35% of base salary and an exceptional award of 78% of base salary in respect of incentives foregone from his previous employer.
- e) No awards have vested or been exercised during the year ended 31 August 2011.
- f) No awards have been granted to or exercised by directors between 1 September 2011 and 20 October 2011.

# 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	Number of shares subject to options at 1 September 2010	Number of shares subject to options granted during the year	Number of shares subject to options exercised during the year	Number of shares subject to options at 31 August 2011	Option price (pence)	Exercise period
<b>Jonathan Bunting</b>							
WH Smith Executive Share Option Scheme							
	03.11.04	64,203	—	—	<b>64,203</b>	81.00	03.11.07–02.11.14
	02.11.05	120,681	—	—	<b>120,681</b>	88.00	02.11.08–01.11.15
Smiths News Sharesave Scheme							
	04.06.08	11,058	—	—	<b>11,058</b>	85.00	01.08.11–31.01.12
	01.06.11	—	11,183	—	<b>11,183</b>	80.70	01.08.14–31.01.15
<b>Total</b>		195,942	11,183	—	<b>207,125</b>		
<b>Mark Cashmore</b>							
WH Smith Executive Share Option Scheme							
	03.11.04	64,203	—	—	<b>64,203</b>	81.00	03.11.07–02.11.14
	02.11.05	169,022	—	—	<b>169,022</b>	88.00	02.11.08–01.11.15
Smiths News Sharesave Scheme							
	04.06.08	4,423	—	4,423	<b>—</b>	85.00	01.08.11–31.01.12
	24.06.09	2,310	—	—	<b>2,310</b>	79.20	01.09.12–28.02.13
	02.06.10	3,689	—	—	<b>3,689</b>	98.40	01.08.13–31.01.14
<b>Total</b>		243,647	—	4,423	<b>239,224</b>		
<b>Nick Gresham</b>							
Smiths News Sharesave Scheme							
	01.06.11	—	4,473	—	<b>4,473</b>	80.70	01.08.14–31.01.15
<b>Total</b>		—	4,473	—	<b>4,473</b>		

a) The middle market price of an ordinary share at the close of business on 31 August 2011 was 83.75p (31 August 2010: 100.75p).

b) The high and low middle market prices of an ordinary share during the year were 120.50p and 79p respectively.

c) The maximum EPS performance target applicable to the options granted under the WH Smith Executive Share Option Scheme 1999 on 3 November 2004 and 2 November 2005, as set out on page 66, has been met and as such these options became exercisable in full on 3 November 2007 and 2 November 2008 respectively.

d) Mark Cashmore exercised the Sharesave option granted to him on 4 June 2008 on 4 August 2011. The market price of the shares on the date of exercise was 79p.

e) There were no gains made by directors on the exercise of share options.

f) No share options lapsed during the year ended 31 August 2011.

g) No share options have been granted to or exercised by directors between 1 September 2011 and 20 October 2011.

## 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:

	<b>31 August 2011</b>	31 August 2010
Andrew Brent	<b>10,101</b>	10,101
Jonathan Bunting	<b>130,402</b>	130,402
Anthony Cann	<b>30,000</b>	30,000
Mark Cashmore	<b>162,270</b>	157,847
Nick Gresham	—	—
Dennis Millard	<b>85,000</b>	85,000
John Worby	<b>12,000</b>	12,000

There has been no change in the directors' interests shown above between 1 September 2011 and 20 October 2011.

## Approval

This report was approved by the Board and signed on its behalf by:

### Anthony Cann

Chairman of the Remuneration Committee  
20 October 2011