



WH Smith PLC

Preliminary Results 2005

13 October 2005



Robert Walker

Chairman



WH Smith PLC

Preliminary Results 2005

1. Financial Review Alan Stewart

2. WHSmith Group Review Kate Swann
 - News Distribution performance
 - Travel Retail performance
 - High Street Retail performance and Turnaround Plan update



Alan Stewart

Group Finance Director



Group Financial Summary

WH Smith PLC
Results – Year ended
31 August 2005

Including Discontinued businesses:	<u>Year to Aug 2005 £m</u>	<u>Year to Aug 2004 £m</u>	<u>Growth %</u>
Sales	2,508	2,834	(12%)
Pre-tax profit before exceptional items & goodwill	73	67	9%
Headline EPS¹	31.6p	19.2p	65%
EPS²	26.0p	(60.7)p	-
Final dividend per share	9.2p	8.0p	15%
Total dividend per share	13.7p	12.0p	14%

1 Headline: Before exceptional items, goodwill and FRS17 interest - undiluted

2 EPS as per FRS14 - undiluted



Group Financial Summary

WH Smith PLC
Results – Year ended
31 August 2005

Continuing Operations:	<u>Year to Aug 2005 £m</u>	<u>Year to Aug 2004 £m</u>	<u>Growth %</u>
Sales	2,497	2,520	(1%)
Pre-tax profit before exceptional items & goodwill	73	46	59%
Headline EPS¹	31.6p	14.3p	121%
EPS²	30.5p	(20.5)p	-
Final dividend per share	9.2p	8.0p	15%
Total dividend per share	13.7p	12.0p	14%

1 Headline: Before exceptional items, goodwill and FRS17 interest - undiluted

2 EPS as per FRS14 - undiluted



Group Sales

WH Smith PLC
Results – Year ended
31 August 2005

	<u>Year to Aug 2005 £m</u>	<u>Year to Aug 2004 £m</u>	<u>Growth %</u>
High Street	1,112	1,152	(3%)
Travel	311	301	3%
Retail	1,423	1,453	(2%)
News Distribution	1,187	1,182	-
Sales - continuing	2,610	2,635	(1%)
Internal Sales	(113)	(115)	
Total Sales	2,497	2,520	(1%)
Discontinued	11	314	
Reported Sales	<u>2,508</u>	<u>2,834</u>	



Profit before Tax Business Summary

WH Smith PLC
*Results – Year ended
31 August 2005*

	Year to Aug 2005 £m	Year to Aug 2004 £m	Growth %
Continuing Operations			
High Street Retail	43	23	87%
Travel Retail	26	21	24%
Retail	69	44	57%
News Distribution	37	35	6%
Trading operations	106	79	34%
Support costs	(16)	(15)	(7%)
Internal rents	1	1	-
Pension service cost	(10)	(14)	29%
Net finance charges	(8)	(5)	(60%)
Profit before tax*- continuing	73	46	59%
Discontinued	-	21	-
Profit before tax*- reported	73	67	9%

* Profit before tax is stated before exceptional items and goodwill amortisation



Retail LFL Sales by Category

*WH Smith PLC
Results – Year ended
31 August 2005*

	<u>H1</u>	<u>H2</u>	<u>Total</u>
Stationery	4%	1%	3%
Books	(3%)	(1%)	(2%)
News & Impulse	0%	1%	1%
Entertainment	(12%)	(12%)	(12%)
Total	<u><u>(2%)</u></u>	<u><u>(1%)</u></u>	<u><u>(2%)</u></u>



Retail Profit & Loss

WH Smith PLC
*Results – Year ended
31 August 2005*

	<u>Year to Aug 2005 £m</u>	<u>Year to Aug 2004 £m</u>	<u>Growth %</u>
Sales	1,423	1,453	(2%)
Gross Contribution	576	553	
Costs	(507)	(509)	
Costs - Rent	(181)	(175)	
- Store	(206)	(213)	
- Central	(120)	(121)	
PBIT*	<u>69</u>	<u>44</u>	<u>57%</u>
<i>Gross Contribution Margin</i>	<i>40.5%</i>	<i>38.1%</i>	<i>240 bp</i>
Stores	669	673	
Average total square feet '000	3,260	3,265	

*PBIT excluding exceptional items and goodwill amortisation



News Distribution Profit & Loss

WH Smith PLC
*Results – Year ended
31 August 2005*

	Year to Aug 2005 £m	Year to Aug 2004 £m	Growth %
Sales	1,187	1,182	-
Gross Contribution	131	132	
House costs	(64)	(62)	
Administration costs	(30)	(35)	
PBIT*	37	35	6%

*PBIT excluding exceptional items and goodwill amortisation



Group Cash Flow

WH Smith PLC
Results – Year ended
31 August 2005

	<u>2005</u> £m	<u>2004</u> £m
Profit before Tax - continuing	73	46
- discontinued	-	21
	73	67
Depreciation and amounts written off tangible fixed assets	42	46
Working capital	4	(27)
Capital expenditure	(32)	(49)
Tax	(4)	(21)
Net provisions	(5)	(4)
Free Cash Flow	78	12



Group Net Funds Movement

WH Smith PLC
Results – Year ended
31 August 2005

	<u>2005</u> £m	<u>2004</u> £m
Free Cash Flow	78	12
Equity dividends paid	(21)	(42)
Cash returned to shareholders	(205)	-
Net purchase of own shares	(7)	-
Pension deficit funding	(130)	(25)
Net disposals	203	31
Finance leases	(13)	-
Financing costs	(2)	-
Sale & leaseback proceeds	2	5
Foreign exchange and other items	-	(4)
Premium on issue of shares	2	-
Net funds movement	<u>(93)</u>	<u>(23)</u>



Group Balance Sheet

WH Smith PLC
Results – Year ended
31 August 2005

	<u>2005</u> £m	<u>2004</u> £m
Goodwill	14	164
Fixed assets	231	237
Working capital	(30)	41
Corporation Tax	(27)	(30)
Deferred tax asset	20	-
Dividends	(16)	(14)
Provisions	(31)	(38)
Operating Assets Employed	161	360
Net (debt) / funds	(48)	45
Total Net Assets (excl. Pensions)	113	405
Net pension liability	(71)	(149)
Total Net Assets	42	256



Group Balance Sheet –2004 Proforma

WH Smith PLC
Results – Year ended
31 August 2005

	<u>Reported Aug 2005 £m</u>	<u>Proforma Aug 2004 £m</u>
Goodwill	14	15
Fixed assets	231	230
Working capital	(30)	(24)
Corporation tax	(27)	(9)
Deferred tax asset	20	15
Dividends	(16)	(14)
Provisions	(31)	(38)
Operating Assets Employed	161	175
Net debt	(48)	(75)
Total Net Assets (excl. Pensions)	113	100
Net pension liability	(71)	(51)
Total Net Assets	42	49



Group Pension Reconciliation

WH Smith PLC
Results – Year ended
31 August 2005

	£m
Reported net deficit at August 04	(149)
Disposals	17
Proforma net deficit at August 04	(132)
Current service cost	(10)
Interest	(2)
Cash contributions	142
Actuarial losses	(42)
Movement in deferred tax asset	(27)
Net deficit at August 05	(71)



New Pension Deficit Funding Agreement

*WH Smith PLC
Results – Year ended
31 August 2005*

- Minimise inherent volatility within scheme
- Revised funding agreement giving greater predictability of cash flows
- New Pension Funding agreement: £15m in 2006, £17m in 2007, £20m in 2008 and thereafter increasing at RPI (capped at 5%)
- New policy uses Liability Driven Investment (“LDI”) to match liabilities and assets and equity options to capture equity market outperformance



Adoption of IFRS

WH Smith PLC
Results – Year ended
31 August 2005

- An accounting change and will not impact commercial operations
- IFRS fully implemented in year ended 31 August 2006
- Key areas of impact include:
 - Share based remuneration
 - Leases
 - Pension assets
 - Dividends
 - Goodwill
- Reporting Timetable
 - November 2005 – Preliminary 2005 results restated under IFRS and 2004 restated Balance Sheet
 - April 2006 – Interim 2006 results under IFRS
 - October 2006 – Preliminary 2006 results under IFRS



Group Key Indicators

WH Smith PLC
Results – Year ended
31 August 2005

	<u>2005</u>	<u>2004</u>	<u>increase</u>
Headline EPS ¹ (continuing)	31.6p	14.3p	121%
Dividend per share			
- Interim	4.5p	4.0p	13%
- Final	<u>9.2p</u>	<u>8.0p</u>	<u>15%</u>
- Total	13.7p	12.0p	14%
Free cash flow (£m)	78	12	
Fixed charges cover	1.4x	1.3x	
ROCE	48%	37%	

¹ Headline: Before exceptional items, goodwill and FRS 17 pensions interest - undiluted



Current Trading

WH Smith PLC
Results – Year ended
31 August 2005

	<u>LFL sales H1 2005</u>	<u>LFL Sales H2 2005</u>	<u>LFL Sales 6 weeks to 8 October</u>
High Street	(3)%	(3)%	(4)%
Travel Retail	<u>4%</u>	<u>3%</u>	<u>3%</u>
Retail	(2)%	(1)%	(2)%
News Distribution	2%	(1)%	(1)%
Total Sales	<u><u>(1)%</u></u>	<u><u>(1)%</u></u>	<u><u>(2)%</u></u>



Kate Swann

Group Chief Executive



Group Overview

- Strong profit recovery across the Group one year into the turnaround plan, despite tough trading conditions
- Substantially improved profitability in the High Street Retail, through good category mix management and tight cost control
- Strong performance from Travel Retail from sales growth, margin growth and well-controlled costs
- Solid performance from News Distribution with progress made on publisher contracts
- Plan to deliver value to shareholders on-track



News Distribution

- Solid performance with 6% profit growth
- Overall sales flat
 - Newspapers +1%
 - Magazines flat
 - Partworks & One Shots -15%
- Efficiency improvements
 - Head office restructuring
 - Completed consolidation of network across North East, Thames Valley and West Midlands
- Continued investment
 - IT capability for improved service
 - Early development of new revenue streams



Publisher Contracts Update

- Magazines
 - All major distributor contracts renewed with c.90% of magazine revenues contracted for c. next 5 years
- Newspapers
 - Mirror and Mail renewal completed
 - Brings total to c.60% of revenues contracted for c. next 3 years
 - Forthcoming tenders: Express, Guardian/FT, News International



OFT Update

- Draft opinion from OFT issued in May
- Highlights of draft opinion:
 - Newspapers
 - Exclusive territories awarded by publishers
 - Existing contracts likely to be acceptable
 - Magazines
 - Exclusive contracts with publishers remain
 - Contracts must allow for 'passive' sales
- Believe different arrangements for newspapers and magazines may lead to inefficiencies in the market
- Investments in recent years leave us better placed to adapt to changes in the market
- Carefully assessing the possible implications as we await the final opinion



Travel Retail

- Strong performance with profit growth of 24% driven by good sales growth, margin gains and well controlled costs
- Sales growth of 3% driven by airport stores sales up 7%; sales at station stores flat
- Average transaction value increased through range improvements and targeted promotional activity
- Good progress tendering for new and existing contracts



Travel Retail - Channels Update

Airport Stores

- Continued strong growth; 2% ahead of passenger growth
- Performance driven by:
 - increased density of fixtures
 - improved product ranges
 - store layout improvements

Railway Stores

- Continued focus on improving rail performance:
 - IT investment
 - Trialling new layouts with space rebalanced by category
- London bombings – July 05
 - Sales decline in weeks following incidents in London; partially mitigated through tight cost control



Travel Retail - Business Development

- New business gained in 04/05
 - London Luton Airport – standard format and specialist bookstore
 - Gatwick North – specialist bookstore conversion
 - Bristol Airport - secured extension of existing stores contract and gained additional bookstore to open in Spring 2006
- Active contract market in 05/06
 - Heathrow T4, Heathrow T1 Books
 - Glasgow Airport
 - Stansted Airport
 - Heathrow T5



WHSmith Book Store in Luton airport





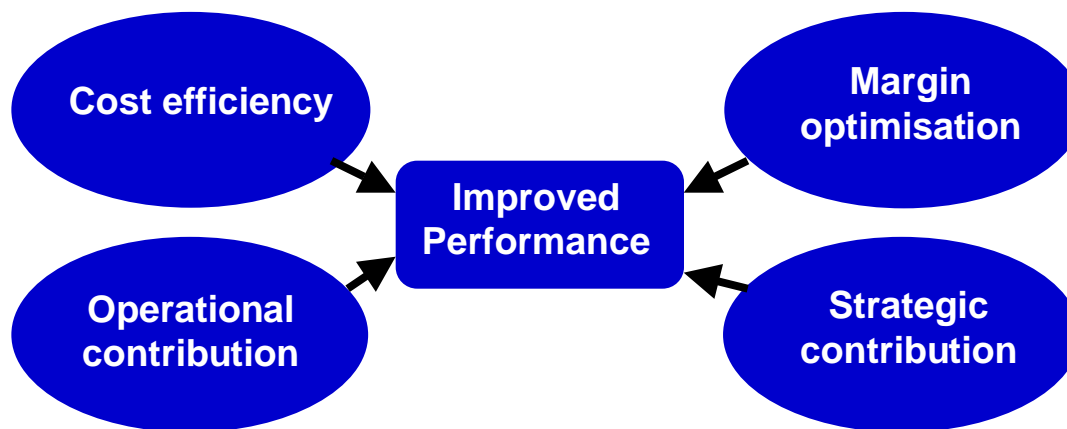
High Street Retail

- Substantially improved profitability versus last year, up 87%
- Sales down 3% in challenging trading environment
- Strong gross margin performance driven by good mix management
- Cost savings delivered ahead of schedule
- Improvement in retail basics
- Encouraging results where we have increased choice and authority



High Street Retail Turnaround Plan

- Rebuild position as Britain's most popular stationer, bookseller and newsagent
- Increasing product authority in core categories
- Re-engineering ranges to faster growing, more profitable categories
- Substantially improving space utilisation
- Refocusing business on needs of stores and customers
- Returning to retail basics to improve operational performance





Cost efficiency improvements

	2005 Actual £m	2006 Forecast £m	2007 Forecast £m	2008 Forecast £m	Total £m
Original planned cost savings	15	8	7		30
Actual savings achieved	18	7	5		30

Further savings identified	2	5	7	4	18
Total savings	20	12	12	4	48



Margin optimisation programme

- Half of margin growth from category mix management
- Remainder of margin growth from:
 - Improved price and promotion management
 - Better buying terms
 - Reduction in shrinkage and improved mark down management
- Mix improvements will continue to be a key driver of profit growth



Margin optimisation programme - continued

Margin Improvement Plans for 2005/06

- Continued category mix shift
- Far East sourcing - target to increase sourcing by c.20% next year
- Shrink management - new targets with focus on news and entertainment categories
- Stock management – plan to reduce stock levels further while maintaining availability and improving mark down



Operational contribution initiatives

- Product availability improved
- Stock management improved
- Focus on retail basics yielding results
- Store investment to improve standards



Strategic contribution initiatives

Two key areas of focus

1. Increasing authority in strategically attractive categories to drive mix shift
 - Improved product range, category refocus
 - Started with key sub-categories in stationery
 - Activity to improve books supply chain to enable increased choice
2. Better use of our assets
 - More display space from same sq ft to enable us to deliver improved authority
 - Use of extra space focused on strategically attractive categories
 - Earning a return from stores where we have excess space



Strategic contribution initiatives

Stationery

- Attractive category – good economics, strong market position
- Delivered increased offer in key sub-categories
 - More range via space utilisation
 - Sourced products ‘missing’ from existing ranges e.g. kids correspondence
- Delivered improved offer
 - New categories which complement existing categories
 - Better range and price architecture e.g. value and premium lines
- Continuing focus to bring broader and better offer to our customers
 - More value and premium lines
 - Trialling extensions: Core stationery, SOHO, Art & Craft, Celebrations



Rebuilding authority - stationery





Rebuilding authority – fashion stationery





Strategic contribution initiatives

Books

- Attractive category with high competition where we aim for a more profitable and authoritative position
 - Focus this year on improving profitability and retail operation of category; early moves towards more authoritative position
- Significant changes to end-to-end supply chain
 - Move stock from DC and stock rooms to shop floor; faster reordering
- More competitive position
 - Increased range through density; c. 200 stores received additional range



Strategic contribution initiatives

Books

- Early positive signs
 - H1 good margin growth but reduced market share due to anniversary of unprofitable promotions in 03/04
 - H2 market share performance stabilised versus general high street
 - Harry Potter 6 - Competed effectively with supermarkets and high street
- Further work to continue to enhance profitability and retail operation
- Further work to enhance category authority
 - Trials underway covering service, environment and increased range





FAVOURITE CHARACTERS

FAVOURITE CHARACTERS

PICTURE BOOKS

PICTURE BOOKS

BABY & TODDLER AGES 0-3

FIRE EXIT



WHSmith

STATIONERY CARDS & WRAP

IN THIS STORE

- STATIONERY
- CARDS & WRAP
- STATIONERY
- STATIONERY
- BOOKS
- MUSIC & DVD
- MAGAZINES

SEASONAL
STATIONERY

**HALF
PRICE**
BUY 2 FOR
STATIONERY
OFFER

**COOL
FOR
SCHOOL**

WHSmith
**BACK
TO
SCHOOL**
2005

**COOL
FOR
SCHOOL**





Strategic contribution initiatives

- News and Impulse
 - Leading position in magazines supplemented by further opportunities in impulse
 - Product enhancements to further increase authority e.g. Bookazines
 - Expanded successful promotions e.g. 'Mag &'
- Entertainment
 - Within category we continue to focus on more attractive areas with stronger economics and where we can develop strong consumer proposition
 - Rebalanced space at subcategory level
 - Developed more competitive promotional offers



Christmas 2005

- Tough retail environment likely to mean very competitive Christmas
- Continue to focus only on profitable activity
- Removed non-strategic, low-margin products
- Phasing of offer will better reflect customer shopping habits e.g. customers are shopping later and later
- Christmas range focused on core categories; value improved
- More flexible marketing activity with tactical promotions planned to respond to competitive pressure



Group Summary

- Strong profit recovery across the Group
- Materially improved profitability in High Street Retail
- Strong performance from Travel Retail and solid performance from News
- Trading conditions likely to remain challenging however we have planned accordingly
- One year in, plan to deliver value to shareholders on-track