

WHSmith

WH Smith PLC
Preliminary Results 2006

12 October 2006

WH Smith PLC

- Introduction Robert Walker
- Financial review Alan Stewart
- Operational review Kate Swann
 - High Street
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Alan Stewart
Group Finance Director

Group financial summary

	Year to Aug 2006 £m	Year to Aug 2005 £m	Change %
Revenue	1,340	1,423	(6%)
Headline profit before tax ¹	54	40	35%
Profit before tax and exceptional items ²	51	39	31%
Profit before tax	44	31	42%
Headline EPS ³	25.0p	17.5p	43%
Basic EPS ⁴	18.6p	12.4p	50%
Final dividend per share	6.2p		

¹ Headline profit before tax, exceptional items and IAS 19 pension interest

² Profit before tax stated before exceptional items (2006 - £12m demerger costs offset by £5m post retirement medical liability settlement; 2005 - £8m US closure charge)

³ Headline EPS: profit after tax, before exceptional items and IAS 19 pension interest – undiluted

⁴ EPS as per IAS 33 – undiluted

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Proforma “Old” WH Smith PLC profit before tax

	Year to Aug 2006 £m	Year to Aug 2005 £m	Growth %
WH Smith PLC			
High Street ¹	42	37	14%
Travel ¹	31	25	24%
Trading operations	73	62	18%
Central costs	(14)	(16)	
Internal rents	1	1	
Finance charges	(9)	(8)	
Profit before tax ²	51	39	31%
Smiths News PLC			
Trading profit	40	38	5%
Central and other costs	(6)	(5)	
	34	33	3%
Finance charges	(2)	(1)	
Profit before tax ²	32	32	
Proforma profit before tax ²	83	71	17%
Total dividends per share	15.3p	13.7p	12%

¹ Stated after directly attributable share based payment and pension service charges

² Before exceptional items

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Demerger : basis of preparation

- Demerger effective 31 August 2006
- WHSmith Retail presented as a stand alone entity for both years
- Divisional profits are shown after directly attributable share based payment and pension service charges
- Tax is stated as if the business has always been a separate entity

Group profit before tax

	Year to Aug 2006 £m	Year to Aug 2005 £m	Growth %
High Street ¹	42	37	14%
Travel ¹	31	25	24%
Trading operations	73	62	18%
Central costs	(14)	(16)	
Internal rents	1	1	
Net finance charges	(6)	(7)	
Headline profit before tax²	54	40	35%
Pension interest	(3)	(1)	
Profit before tax²	51	39	31%

¹ Stated after directly attributable share based payment and pension service charges

² Before exceptional items

Profit from trading operations

	Year to Aug 2006 £m	Year to Aug 2005 £m	Change %												
Revenue	1,340	1,423	(6%)												
Gross contribution	579	576	1%												
Costs	(506)	(514)	2%												
<table> <tbody> <tr> <td>Costs – occupation costs</td> <td>(187)</td> <td>(181)</td> <td></td> </tr> <tr> <td>– store costs</td> <td>(193)</td> <td>(206)</td> <td></td> </tr> <tr> <td>– other costs</td> <td>(126)</td> <td>(127)</td> <td></td> </tr> </tbody> </table>				Costs – occupation costs	(187)	(181)		– store costs	(193)	(206)		– other costs	(126)	(127)	
Costs – occupation costs	(187)	(181)													
– store costs	(193)	(206)													
– other costs	(126)	(127)													
Profit from trading operations¹	73	62	18%												
Gross margin	43.2%	40.5%	270bps												
Stores	672	669													
Average total square feet '000	3,219	3,251													

¹ Before interest and tax and after directly attributable share based payment and pension service charges

Revenue analysis

	Year to Aug 2006 £m	Year to Aug 2005 £m	LFL Change %
Revenue			
High Street	1,021	1,112	(7%)
Travel	319	311	3%
Total revenue	1,340	1,423	(4%)

	H1	H2	Year to Aug 2006 %
LFL sales by category			
Stationery	(4%)	(4%)	(4%)
Books	(4%)	(7%) ¹	(5%)
News & Impulse	2%	3%	3%
Entertainment	(17%)	(21%)	(19%)
Total	(5%)	(4%)	(4%)

¹ (3)% excluding Harry Potter

Group free cash flow

	Year to Aug 2006 £m	Year to Aug 2005 £m
Headline profit before tax¹	54	40
Net finance charges	6	7
Profit before interest and tax²	60	47
Depreciation and amortisation	37	41
Working capital	9	(8)
Capital expenditure	(29)	(30)
Tax	(2)	(2)
Provisions	(3)	(6)
Net interest paid	(5)	(2)
Non cash items	1	4
Free cash flow	68	44

¹ Headline profit before tax, exceptional items and IAS19 pension interest

² Stated before exceptional items

Group net debt movement

	Year to Aug 2006 £m	Year to Aug 2005 £m
Free cash flow	68	44
Dividends paid	(15)	(11)
Pension deficit and retirement benefit funding	(12)	(90)
Sale and leaseback and fixed asset proceeds	9	2
Net disposals of subsidiaries	8	203
Corporate advisory and financing costs	(6)	(2)
Purchase and issue of own shares	(6)	(5)
Other items	(3)	-
Intercompany settlement on demerger	57	(8)
Net finance leases	-	(12)
Cash returned to shareholders	-	(205)
Net debt movement	100	(84)
Closing net funds / (debt)¹	42	(58)

¹ £25m paid to reduce the pension liability on 1 September 2006 not included in these numbers

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Group balance sheet

	2006 £m	2005 £m
Goodwill & other intangible assets	30	29
Property, plant & equipment	184	197
Working capital	(6)	15
Corporation tax	(20)	(26)
Deferred tax	16	24
Provisions	(12)	(16)
Operating assets employed	192	223
Net funds / (debt) ¹	42	(58)
Total net assets (excluding pensions)	234	165
Pension liability ¹	(66)	(60)
Total net assets	168	105

¹ £25m paid to reduce the pension liability on 1 September 2006 not included in these numbers

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Pensions

- Liability Driven Investment (“LDI”) policy adopted in September 2005 to minimise inherent scheme volatility
- We have reduced the pension deficit significantly since 2003

	2003	2004	2005	2006
Gross pension deficit (IAS 19)	£152m	£146m	£60m	£41m ¹

- On demerger “old” WH Smith PLC defined benefit pension scheme split between Retail and News through ‘sectionalisation’ with no cross guarantees or future recourse
- 1 September 2006, £25m contributed to defined benefit scheme
- Future annual deficit funding of c.£10m has been agreed for the next 5 years

¹ After £25m cash contribution to pension liability post year end

Group key indicators

	Year to Aug 2006 £m	Year to Aug 2005 £m	Growth %
Headline EPS ¹	25.0p	17.5p	43%
Basic EPS ²	18.6p	12.4p	50%
Final dividend per share	6.2p		
Free cash flow (£m)	68	44	
Fixed charges cover	1.3x	1.3x	
ROCE	35%	23%	

¹ Headline EPS: profit before tax, exceptional items and IAS19 pension interest - undiluted

² EPS as per IAS 33 - undiluted

Current trading

	LFL sales Year to Aug 2006	LFL sales 5 weeks to 7 October 2006
High Street	(7%)	(5%)
Travel	3%	3%
Total revenue	(4%)	(3%)

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Kate Swann

Group Chief Executive

Group - overview

- Good performance across the Group; profit progress in all areas
- Further profit improvement in High Street
- Strong performance from Travel during its peak trading season
- Strong cash generation in both High Street and Travel
- Successful separation of Retail and Smiths News via demerger
- Delivery of value to shareholders continues

High Street - overview

- Good profit improvement; up 14%
- LFL sales down 7%
- Strong gross margin performance up by c.290 bps
- Continued delivery of mix changes
- Focused cost control delivered savings of £22m in the year; further cost savings identified
- Good cash generation through improved stock position and effective investment
- Turnaround progressing to plan

High Street strategy

- Rebuild position as Britain's most popular stationer, bookseller and newsagent
- Retailing basics and cost control
- Drive the gross margin by category mix management
- Focus on core categories, rebuilding authority as a specialist
- Reduce our reliance on entertainment
- Use our space more effectively
- Plan not predicated on sales growth in the short/medium term
- As we rebuild our authority in core categories we become better placed to benefit in sales terms

Cost efficiency improvements

- October 2005 we targeted £48m of savings over 4 years to 2008
- Delivered £22m in 2006, £4m ahead of expectations
- Identified further cost savings of £16m over the next 3 years, giving total target savings of £22m for 2007-2009

	2005 Actual £m	2006 Actual £m	2007 Forecast £m	2008 Forecast £m	2009 Forecast £m	Total £m
October 2005	20	12	12	4	-	48
Projection at Interims	20	18	8	2	-	48
Actual/forecast	20	21	5	2	-	48
Further savings identified	-	1	2	7	6	16
Total savings	20	22	7	9	6	64

Cost efficiency improvements cont.

Improvements have been delivered through, for example:

- Consolidation of distribution network into two warehouses
- Reconfiguration of our central distribution centre in Swindon
- Creation of shared IT services
- Staff flexibility programme
- Store and other cost savings e.g. carrier bags, transport costs
- Successful and more efficient marketing communication package launched – *“Think WHSmith”*

Margin optimisation programme

- Margin growth from intra-category and inter-category mix management
- Further margin growth from:
 - Improved promotions management
 - Better buying terms
 - Improved Far East sourcing
 - Reduction in shrinkage
 - Improved mark-down management

Books

- Strategy to rebuild authority remains unchanged
- Profit improved well YoY; LFL sales down 6%
- Competitive market especially Christmas 2005
- Further period of share stabilisation vs. general high street
- Expanded space to books in 70 stores
- Improved efficiency and operational processes
 - Invested £1.5m in systems to improve core store and ranging processes
 - New line management - completed
 - In season/core stock management – 60% complete
 - Churn and returns process – 80% complete
- Sales through web-based channels currently running at 4%
- Format trials on going

Stationery

- Tough market with consumer spending down
- Focused on core categories, successfully removing unprofitable ranges e.g. electronics
- LFL sales down 4%; gross margin up strongly YOY
- Category range reviews completed and initial benefits being delivered
- New ranges and range extensions rolled out
- Introduced initial stationery ranges to internet offer
- Improved performance during Back to School

Back to School



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News & Impulse

- Challenging market, particularly monthlies and partworks
- Held share in news and magazines
- Good snacking and confectionery growth
- LFL sales up 1% with gross margin up
- Range developments implemented
 - Additional space to snacking/confectionery in c.160 stores
 - New bookazine titles
- Supply chain improvements including sales-based replenishment
- Continued developments planned

Signage and layouts



Entertainment

- Market remains very difficult
- Our plan focused on maximising profit and delivering profitable sales
- Developing Christmas 2006 plan on the same basis
- Tightly controlled stock to reflect sales patterns while maintaining availability levels
- Completed move to consolidator model
- Implementation of selective entertainment space reduction for other core categories and additional services
- Within entertainment, continue to rebalance space towards growth categories/formats

Christmas 2006

- Tough retail environment likely to mean very competitive Christmas
- Continue to focus only on profitable activity
- Continued active management of entertainment category and mix
- Christmas range focused on core categories; value improved
- Further improvement to catalogue and web-based channels
- Build on success of 2005 marketing campaign

Travel – overview

- Excellent performance, profit up 24%
- LFL sales growth of 3%
 - Continued strength in airport sales – up 6%
 - Total rail sales flat with H2 recovery in London rail
- Further improvement in gross margin driven by category mix management and better buying
- Costs tightly controlled
- Existing contracts successfully renewed and new business won
- New formats progressing well

Travel strategy

- Deliver organic growth in existing space by better meeting customer needs
- Retailing basics and cost control
- More effective use of space
- Renew existing contracts
- Expand CTN format to new profitable locations
- Develop, test and roll out new formats in our categories that meet customer and landlord needs

Travel - Airport stores

- Strong growth; LFL sales growth of 6%, 2 percentage points ahead of passenger growth
- Improved product ranges:
 - Extensions to Impulse offer e.g. roll out of food range
 - Development of healthier snacking ranges and drinks
 - Roll out of wider range of exclusive format books
- More efficient use of space e.g. increased fixture density
 - High density chiller and chiller dumpbins
 - High density news cubes
- Service improvements including
 - Mobile tilling
 - Roll out of queuing systems in airside stores
 - Best ever mystery shopper scores
- Specialist book stores continue to trade well

Travel - Airport stores

- Good progress renewing contracts
- 4 contracts renewed in 05/06
- 9 refits completed in 05/06 and 20 planned for 06/07
- 5 new stores opened in 05/06
 - Bristol Bookstore
 - Blackpool CTN
 - Glasgow CTN
 - Southampton CTN
 - Manchester T1 CTN
- 5 new stores recently won

Travel – Rail stores

- Total LFL rail sales were flat in the year
- Stronger H2 performance, LFL up 2% in both London and regional stores
- Focus on London rail in H2 encouraging
 - Extended opening hours
 - Increase in tills open at peak trading hours to reduce queues
 - Improved customer service through staff flexibility
- Roll out of new layouts in regional rail stores, rebalancing space
- Product and range development:
 - Roll out of Foo-Go food range and healthier snacks
 - Roll out of emerging new categories
 - Stationery and bookshop trials performing well; early days

Travel – Rail stores

- 10 contracts renewed in 05/06 including contract with ScotRail for 12 sites
- 9 refits in 05/06 and 18 planned for 06/07
- 3 new stores opened in 05/06
 - Liverpool Street Bookstore
 - Charing Cross Stationery
 - London Bridge Stationery
- 2 new stores won and scheduled to open in 06/07

Travel



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Summary

- Strong profit performance across the Group
- Successful separation of the Retail and News businesses
- Continued improvement in High Street
- Excellent performance from Travel
- Strong cash generation
- Tough trading conditions continue, however we have planned accordingly
- Plan to deliver value to shareholders is on track