

9 October 2008

**WH SMITH PLC
PRELIMINARY RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 AUGUST 2008**

Focused strategy continues to deliver good profit performance

KEY POINTS

- Group profit before tax and exceptional items up 15% to £76m (2007: £66m).
 - Travel profit up 14% to £41m¹ (2007: £36m)
 - High Street profit up 7% to £47m¹ (2007: £44m)
- Total Group profit before tax of £76m (2007: £76m).
- Underlying earnings per share² up 20% to 35.3p (2007: 29.3p).
- Group total sales up 4% with like-for-like (LFL) sales down 2%:
 - Travel total sales up 22% with LFL sales up 1%
 - High Street total sales down 2% with LFL sales down 3%, in line with our strategic plan
- Integration of recent acquisitions, UNS Group Limited and airport units from Alpha Retail, progressing in line with plan.
- Gross margin has improved by 120 basis points year on year.
- Cost savings of £8m, delivered in line with plan, further £10m of cost savings identified.
- Strong free cash flow of £63m (2007: £81m).
- Earnings per share (including exceptional items) up 7% to 35.3p (2007: 33.1p)³.
- Final dividend proposed of 9.7p, up 20% on the prior year. Full year dividend of 14.3p, up 21% on prior year, excluding the special dividend of 33p per ordinary share.
- Completed return of £90m of cash to shareholders through a special dividend and on market share buyback programme.

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

“We have delivered another year of good profit performance, with Group profits up 15%, earnings per share up 20% and strong free cash flow of £63m.

“We have seen further strong performance from Travel with the integration of new businesses proceeding in line with our plan. In High Street, we continue to deliver our strategy to rebalance the mix of our business and rebuild our authority in our core categories.

“Given the current consumer environment, we are expecting a competitive Christmas trading season. We have planned accordingly.”

¹ High Street and Travel profit is stated after directly attributable defined benefit pension service costs and share-based payment costs and before central costs, exceptional items, interest and taxation

² Profit after tax and before exceptional items - diluted

³ EPS as per IAS 33 – diluted. Includes non cash exceptional gain of £10m in the prior year

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WH Smith PLC's Preliminary Results 2008 are available at www.whsmithplc.com. A copy of the Preliminary Results 2008 will shortly be available for inspection at the UK Listing Authority, 25 The North Colonnade, London E14 5HS.

FINANCIAL REVIEW

Group Summary

The Group generated profit before tax and exceptional items of £76m (2007: £66m), an increase of 15% on the prior year. Profit from trading operations increased to £88m, up 10% on the prior year.

Travel continued its strong performance, with profit¹ increasing by 14% to £41m, sales up 22% and underlying margin growth. During the year we made substantial progress in business development through the acquisitions of UNS Group Limited and airport units from Alpha Retail UK Limited and an agreement with RoadChef. This year has been one of major expansion for Travel and we finish the year as a key player in four sales channels.

High Street profit¹ was £47m, up 7% on the prior year. We are continuing with our strategy to rebalance the mix of our business towards our core categories, reducing our reliance on entertainment, to optimise margins and maintain tight cost control.

Total Group sales were up 4% to £1,352m (2007: £1,299m) with LFL sales down 2%. Travel sales grew by 22% to £413m, up 1% on a LFL basis (excluding tobacco, LFL sales were up 3%). High Street sales were down 2% at £939m and down 3% on a LFL basis.

Underlying earnings per share² increased by 20% to 35.3p (2007: 29.3p), with earnings per share (including exceptional items)³ of 35.3p (2007: 33.1p). Earnings per share calculations reflect a lower basic weighted average number of shares in issue, following the share buyback and share consolidation, and an increase in the effective rate of tax from 20% last year to 23% in the current year.

Cash generation in the period has remained strong. Group free cash flow was £63m (2007: £81m). As a result of acquisitions and new business wins we have spent an additional £7m on capital expenditure compared with the prior year. Our working capital position has improved, notwithstanding the increased stock that the acquisitions and our new stores have required.

The Company completed a £90m return of cash to shareholders during the year. This was achieved through a special dividend of 33p per ordinary share, combined with a share consolidation of 67 new ordinary shares for every 74 existing shares and an on market share buyback programme.

At 31 August 2008, the Group had net assets of £161m (2007: £227m). The decrease reflects the £90m return of cash to shareholders in the period. At year end net debt was £9m and the Group had committed working capital facilities of £90m through to June 2011.

¹ Trading operations profit is stated after directly attributable share-based payment and pension service charges and before central costs, exceptional items, interest and taxation.

² Profit after tax and before exceptional items – diluted

³ EPS as per IAS 33 – diluted. Includes non cash exceptional gain of £10m in the prior year

The Board has proposed a final dividend of 9.7p per share. This is an increase of 20% on the prior year which, together with the interim dividend and the return of cash to shareholders announced on 31 January 2008, reflects the Board's confidence in the continuing strong cash generative nature of the business.

Trading Operations

Travel

Travel delivered another strong performance with profit¹ increasing by 14% to £41m (2007: £36m). This was achieved as a result of increased sales combined with improved underlying gross margin and tight cost control.

Travel sales grew by 1% on a LFL basis. Excluding tobacco, LFL sales were up 3%. Total sales in Travel were up 22% driven by new business development and our expansion into the motorway service area and hospital markets.

Underlying gross margin has increased during the year through good category mix management and further buying improvements, resulting in more sales in higher margin categories such as confectionery and books. We have increased average transaction value by focusing on mix changes and improved promotional activity.

We have made substantial progress in business development. We successfully renewed 12 contracts and completed 27 refits. During the year we opened 28 new units: 20 in air including six at Heathrow Terminal 5, five at Edinburgh and three at Heathrow Terminal 3; 6 in rail including four at St Pancras International; and 2 motorway service leaseholds. We closed 6 units in the period, primarily due to landlord redevelopments.

In April we announced the acquisition of UNS Group Limited, comprising 72 retail units and 8 Caffe Nuovo coffee shops in 62 hospitals. We also acquired 23 units in 11 airports from Alpha Retail UK Limited. In addition, we signed a franchise agreement with RoadChef to open 29 CTN units which significantly enhances our coverage of the motorway network; we opened 15 franchise units with RoadChef in the year and will open the remaining 14 by Spring 2009.

As at 31 August 2008, the Travel business operated from 449 units, including motorway service area franchise units and Caffe Nuovo coffee shops. Excluding motorway service area franchise units, Travel occupies 0.4m square feet (2007: 0.2m square feet).

High Street

High Street delivered a profit¹ increase of 7% to £47m (2007: £44m), as we continued with our strategy to rebalance the mix of the business focusing on rebuilding authority in our core categories, optimising margins, maintaining tight cost control and delivering the retail basics.

High Street sales were down 2% and on a LFL basis down 3%. Sales in the second half were in line with expectations and were impacted by last year's Harry Potter effect.

Gross margin improved through rebalancing the mix of our business, better buying terms, improved sourcing and markdown management.

High Street delivered £8m of cost savings during the period, in line with our targets. Cost savings were delivered from a number of areas of the business including closure of off-site stock rooms, supply chain and scanner efficiencies. A further £10m of cost savings have been identified to be made in 2010 and 2011, making £25m over the next three years.

¹ Trading operations profit is stated after directly attributable share-based payment and pension service charges and before central costs, exceptional items, interest and taxation.

We have completed the integration of Post Offices into 82 High Street stores. In addition, as part of our relationship with Post Office Limited, we opened Bureau de Change units in a further 50 High Street stores. As part of an agreement with DHL, we will also be offering DHL delivery services from 400 stores. This forms part of our strategy to enhance our customer offer and use space more effectively in our stores.

The High Street business now operates from 557 stores, which occupy 3.0m square feet (2007: 3.0m square feet). We opened 9 new stores in un-served catchments and closed 3 stores during the period. We also acquired 7 Martin McColl high street stores, supporting our strategy to move into un-served catchments, and these were re-branded in the period.

Category Performance

We continued to implement our strategy to rebuild our authority as a popular book specialist. Books LFL sales were flat, excluding the impact of last year's Harry Potter release. Gross margin was up year on year. We were pleased with our share performance versus the general high street, driven by high market shares over the key Christmas period in front list titles such as Russell Brand's *My Booky Wook* and Richard Hammond's *On the Edge*. Improved ranges and innovative promotions also contributed to our performance, for example through *The Times* Read of the Week promotion. In-store execution continues to be a focus with better availability, better pricing compliance and improvements to the recall process. In Travel, extended books charts, improved display of chart titles and strong promotions have contributed to our books performance and we have also seen an encouraging performance from our specialist bookstore format. By Christmas, we plan to have opened a further 6 of these stores, bringing the total to 15 in Air.

Stationery LFL sales were flat reflecting the general stationery market which has been soft throughout the year. Gross margin was up as planned, driven by intra category mix as well as improved seasonal markdown management and increased Far East sourcing. The limited market data available shows our share continues to be strong. Core sub categories remain our focus, supported by an improved range of 'digital' stationery items such as USB memory sticks. Our Back to School offer was well-received. In Travel, we have undertaken a full stationery range review and will relaunch the category in the autumn in our rail and air stores.

News and Impulse LFL sales were down 1% year on year with an improvement in gross margin. The magazine market continues to be challenging, but we held share, supported by our successful programme of promotional activity. In Travel we have focused on strong newspaper promotions as well as extending our range of travel-size magazines. We saw strong performance in snacking and confectionery, contributing to the improved gross margin, driven by better use of space and new ranges.

In Entertainment, we continued with our strategy to reduce steadily our presence in entertainment and as we do this, we are optimising profitability. Entertainment LFL sales were down 18% which was in line with our plan. We continue to improve efficiency in the category, for example, through the introduction of handheld scanners for returns. Stock was tightly controlled to reflect sales patterns.

Non-Operating Activities

Net Investment Income

The results include net investment income of £2m (2007: net finance charge of £1m). This reflects the strong cash position in the first half of the financial year.

Exceptional Items

There were no exceptional items in the current year. In the prior year we recognised a £10m non cash curtailment gain as a result of the closure of the WHSmith Pension Trust to defined benefit service accrual on 2 April 2007.

Fixed Charges Cover

Fixed charges, comprising property operating lease rentals and net finance charges, were covered 1.4 times (2007: 1.4 times) by fixed charges and profit before tax and exceptional items.

Dividends

The Board is proposing a final dividend of 9.7p per ordinary share, an increase of 20% on the prior year. This gives a total dividend for the year of 14.3p per ordinary share up 21% (excluding the special dividend of 33p per ordinary share). Subject to shareholder approval the dividend will be paid on 5 February 2009 to shareholders registered at the close of business on 9 January 2009. The Board has a progressive dividend policy and expects that over time dividends would be broadly covered twice by earnings calculated on a normalised tax basis.

CASH FLOW

The Group has delivered a strong free cash flow of £63m.

£m	2008	2007
Operating profit ¹	74	67
Depreciation, amortisation & amounts written off fixed assets	42	41
Working capital	2	9
Capital expenditure	(39)	(32)
Tax	(21)	(8)
Net interest received	2	2
Net provisions	(3)	(2)
Other items	6	4
Free cash flow	63	81

¹ Stated before exceptional items

We continue to focus on working capital management. The increased stock requirements from acquisitions and new store openings have been offset by efficient management of payables and receivables.

As expected, cash payments in respect of corporation tax increased, and during the year the Group paid £21m of tax which is £13m higher than in the prior year. The effective tax rate for the year was 23%, an increase on the prior year rate of 20%.

Net interest income for the year was £2m which reflects the strong cash position in the first half of the financial year.

Other items relate to share-based payment charges of £6m (2007: £6m) and profits on disposal of fixed assets of £nil (2007: £2m).

Capital Expenditure

£m	2008	2007
New stores and store development	19	12
Refurbished stores	9	7
Systems	8	9
Other	3	4
Total	39	32

The Group has incurred £39m capital expenditure in the year. This is ahead of our previous levels, reflecting the significant acquisitions we made during the year and our business gains. We opened 37 new units including Travel units at Edinburgh airport, Heathrow airport and St Pancras International, and High Street units in Woodbridge and St Peter Port. We also completed the Post Office opening programme announced last year. We continue to invest in maintaining our retail properties. During the period we have undertaken refurbishments at High Street units including Lewisham and Fort Kinnaird and Travel units including Gatwick South and North Terminals. In the current year we expect capital expenditure to be consistent with levels in earlier years, at circa £32m.

Net Funds

The movement in the net funds position is as follows:

£m	2008	2007
Opening net funds	64	42
Free cash flow	63	81
Return of cash to shareholders ¹	(90)	-
Equity dividends paid ¹	(21)	(17)
Acquisitions and associated costs	(24)	-
Pension deficit funding	(10)	(35)
Tax refund and associated interest received	15	14
Net purchase of own shares	(9)	(12)
Sale & leaseback and fixed asset disposal proceeds	3	2
Corporate advisory costs	-	(6)
Other items	-	(5)
Closing net funds	(9)	64

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

During the year, the Group completed a £90m return of cash to shareholders. This return was made by way of a special dividend of 33 pence per share paid on 29 February 2008 and an on market share buyback programme, amounting to £33m.

We have spent £24m on the acquisition of UNS Group Limited, the airport units from Alpha Retail UK Limited and the High Street units from Martin McColl.

Additional pension deficit funding of £10m has been made in the period as part of the Group's £10m per annum pension funding agreement which runs until 2011. In the prior year, we also made a one-off payment of £25m, as part of our demerger from Smiths News PLC.

During the period we received a tax refund including associated interest of £15m (2007: £14m).

GROUP BALANCE SHEET

£m	2008	2007
Goodwill and other intangible assets	55	35
Property plant and equipment	177	176
Available for sale investments	-	4
	232	215
Inventories	147	141
Payables less receivables	(171)	(161)
Working capital	(24)	(20)
Net deferred tax asset	1	3
Current tax liability	(31)	(25)
Provisions	(8)	(10)
Operating assets employed	170	163
Net funds	(9)	64
Net assets excluding pension liability	161	227
Pension liability	-	-
Total net assets	161	227

The Group's net assets have decreased from £227m at the end of 2007 to £161m this year, principally as a result of the return of cash to shareholders.

Return on Capital Employed

Total capital employed and ROCE were as follows:

	Operating Capital Employed £m	ROCE %	ROCE% with operating leases capitalised
High Street	163	29%	14%
Travel	53	77%	25%
Retail	216	41%	17%
Unallocated central items	(46)		
Operating assets employed	170	44%	17%

For the prior year, comparable average returns were 41 per cent (15 per cent - after capitalised operating leases).

Pensions

The Group has made significant progress since 2003 in substantially reducing the Group's gross IAS 19 pension deficit to £nil at 31 August 2008. The LDI structure has been in place for three years and continues to perform well.

During the year, the Group has made a £10m contribution to the WHSmith Pension Trust, in line with the annual deficit funding schedule agreed with the WHSmith Pension Trust Trustees. This will continue for the next three years, until September 2011.

On 2 April 2007, the WHSmith Pension Trust was closed to defined benefit service accrual. The actuarial impact of these changes on the liabilities of the WHSmith Pension Trust was reflected in the non cash curtailment gain of £10m in the prior year.

On an ongoing funding basis the gross actuarial defined benefit pension deficit for WH Smith PLC was approximately £60m (approximately £43m net of related deferred taxes) at 31 August 2008 for the Pension Trust (2007: £46m and £33m net of related deferred taxes). There is an actuarial deficit due to the different assumptions and calculation methodologies used compared to those under IAS19.

Operating leases

The Group's stores are held mainly under operating leases that are not capitalised and therefore are not included as a debt for accounting purposes. The High Street leases are on standard 'institutional' lease terms, typically with a 15 year term, subject to five year upwards-only rent reviews. The Travel stores operate mainly through turnover related leases, usually with minimum rent guarantees, and generally varying in length from five to ten years.

The business has an annual minimum net rental commitment of £151m (net of £8m of external rent receivable). The total future rental commitment at the balance sheet date amounted to £900m with the leases having an average life of six years. The net present value of these commitments is approximately £637m. 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.

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 (provided that the Smiths News PLC liability is limited to £5m in any 12 month period). We have estimated the Group's 65% share of the future cumulative rental commitment at approximately £64m (2007: £76m).

CURRENT TRADING

As in the prior year, the Group will issue its Interim Management Statement on 12 November 2008.

WH Smith PLC

Group Income Statement

For the year ended 31 August 2008

£m	2008				2007		
	Note	Before exceptional items	Exceptional items	Total	Before exceptional items	Exceptional items	Total
Continuing operations							
Revenue	1	1,352	-	1,352	1,299	-	1,299
Operating profit	1, 2	74	-	74	67	10	77
Investment income	4	5	-	5	5	-	5
Finance costs	5	(3)	-	(3)	(6)	-	(6)
Profit before tax		76	-	76	66	10	76
Income tax expense	6	(17)	-	(17)	(13)	(3)	(16)
Profit after tax from continuing operations		59	-	59	53	7	60
Profit for the year		59	-	59	53	7	60
Earnings per share¹							
Basic	8			36.4p			34.3p
Diluted	8			35.3p			33.1p
Non GAAP measures							
Underlying earnings per share²							
Basic	8			36.4p			30.3p
Diluted	8			35.3p			29.3p
Equity dividends per share³				14.3p			11.8p
Fixed charges cover				1.4x			1.4x

1 Earnings per share is calculated in accordance with IAS 33 'Earnings per share'

2 Underlying earnings per share excludes exceptional items

3 Dividend per share is the final proposed dividend of 9.7p (2007: 8.1p) and the interim dividend of 4.6p (2007: 3.7p) excluding the special dividend of 33p per ordinary share paid on 29 February 2008 (2007: nil)

WH Smith PLC

Group Balance Sheet

As at 31 August 2008

£m	Note	2008	2007
Non-current assets			
Goodwill		32	15
Other intangible assets		23	20
Property, plant and equipment		177	176
Deferred tax assets		11	15
Trade and other receivables		4	5
		247	231
Current assets			
Inventories		147	141
Trade and other receivables		70	59
Available for sale investments		-	4
Derivative financial assets		2	-
Cash and cash equivalents	9	22	82
		241	286
Total assets		488	517
Current liabilities			
Trade and other payables		(239)	(217)
Current tax liabilities		(31)	(25)
Obligations under finance leases	9	(4)	(3)
Bank overdrafts and other borrowings	9	(25)	(9)
Short-term provisions		(4)	(6)
Derivative financial liabilities		-	(1)
		(303)	(261)
Non-current liabilities			
Retirement benefit obligation	3	-	-
Deferred tax liabilities		(10)	(12)
Long-term provisions		(4)	(4)
Obligations under finance leases	9	(2)	(6)
Other non-current liabilities		(8)	(7)
		(24)	(29)
Total liabilities		(327)	(290)
Total net assets		161	227
Total equity		161	227

WH Smith PLC

Group Balance Sheet

As at 31 August 2008 (continued)

£m	Note	2008	2007
Shareholders' equity			
Called up share capital		35	37
Capital redemption reserve		2	-
Revaluation reserve		2	4
ESOP reserve		(28)	(29)
Hedging reserve		2	(1)
Translation reserve		(2)	(2)
Other reserve		(179)	(165)
Retained earnings		329	383
Total equity		161	227

These financial statements were approved by the Board of Directors and authorised for issue on 9 October 2008 and were signed on its behalf by:

Kate Swann

Group Chief Executive

Alan Stewart CA (SA)

Group Finance Director

WH Smith PLC

Group Cash Flow Statement

For the year ended 31 August 2008

£m	Note	2008	2007
Net cash inflow from operating activities	10	104	83
Investing activities			
Interest received		4	5
Proceeds on disposal of property, plant and equipment		3	2
Non-operating disposal costs		-	(3)
Acquisition of businesses		(24)	-
Purchase of property, plant and equipment		(35)	(26)
Purchase of intangible assets		(4)	(6)
Net cash outflow from investing activities		(56)	(28)
Financing activities			
Interest paid		(1)	(2)
Dividend paid		(78)	(17)
Purchase of own shares for cancellation		(33)	-
Purchase of own shares for employee share schemes		(9)	(12)
Proceeds from borrowings		25	-
Repayments of borrowings		(9)	(4)
Repayments of obligations under finance leases		(3)	(3)
Derivative cash movements		-	(1)
Net cash used in financing activities		(108)	(39)
Net (decrease) / increase in cash and cash equivalents – continuing operations		(60)	19
Net decrease in cash and cash equivalents – discontinued operations		-	(3)
Net (decrease) / increase in cash and cash equivalents in year		(60)	16
Opening net cash and cash equivalents		82	66
Closing net cash and cash equivalents		22	82

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

£m	Note	2008	2007
Net funds at beginning of the year		64	42
(Decrease) / increase in cash and cash equivalents		(60)	16
(Increase) / decrease in debt		(16)	4
Net movement in finance leases		3	2
Net (debt) / funds at end of the year	9	(9)	64

WH Smith PLC

Group Statement of Recognised Income and Expense

For the year ended 31 August 2008

£m	2008	2007
Actuarial (losses) / gains on defined pension schemes (Note 3)	(10)	23
Tax on items taken directly to equity		
- deferred tax	1	(13)
- current tax	-	5
Net (expense) / income recognised directly in equity	(9)	15
Profit for the year	59	60
Total recognised income and expense for the year	50	75

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

WH Smith PLC

Reconciliation of Movements in Equity

For the year ended 31 August 2008

£m	Share capital	Capital	Revaluation reserve	ESOP reserve	Hedging and	Other Reserve ¹	Retained earnings	Total
		Redemption reserves			translation reserves			
Balance at 1 September 2006	357	-	3	(22)	(4)	(166)	-	168
Total recognised income and expense for the year	-	-	-	-	1	-	74	75
Recognition of share-based payments	-	-	-	-	-	-	6	6
Dividends paid	-	-	-	-	-	-	(17)	(17)
Employee share schemes	-	-	-	(9)	-	1	-	(8)
Court approved capital reduction	(320)	-	-	-	-	-	320	-
Transfer to available for sale financial investments	-	-	1	2	-	-	-	3
Balance at 1 September 2007	37	-	4	(29)	(3)	(165)	383	227
Total recognised income and expense for the year	-	-	-	-	-	-	50	50
Recognition of share-based payments	-	-	-	-	-	-	6	6
Dividends paid	-	-	-	-	-	-	(78)	(78)
Employee share schemes	-	-	(1)	1	-	(14)	-	(14)
Purchase of own shares for cancellation	(2)	2	-	-	-	-	(33)	(33)
Profit realised on sale of previously revalued freehold property	-	-	(1)	-	-	-	1	-
Mark to market valuation	-	-	-	-	3	-	-	3
Balance at 31 August 2008	35	2	2	(28)	-	(179)	329	161

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

WH Smith PLC
Notes to Accounts

1. Segmental analysis of results

For management purposes, the Group is currently organised into two operating divisions – High Street and Travel. These divisions are the basis on which the Group currently reports its primary business segment information. Prior to its disposal in 2004, USA Travel Retail was a separate business segment.

i) Segmental analysis by business segments

a) Group revenue

£m	2008	2007
Continuing operations:		
High Street	939	961
Travel	413	338
Group revenue	1,352	1,299

b) Group results

£m	2008	2007
Continuing operations:		
High Street	47	44
Travel	41	36
Trading profit	88	80
Unallocated costs	(14)	(13)
Group operating profit before exceptional items	74	67
Exceptional items	-	10
Group operating profit	74	77
Investment income	5	5
Finance costs	(3)	(6)
Income tax expense	(17)	(16)
Profit for the year	59	60

WH Smith PLC
Notes to Accounts (continued)

1. Segmental analysis of results (continued)

i) Segmental analysis by business segments (continued)

c) Balance Sheet

£m	2008					2007				
	High Street	Travel	Continuing operations	Discontinued operations	Group	High Street	Travel	Continuing operations	Discontinued operations	Group
Assets										
Segment assets	346	110	456	-	456	344	75	419	-	419
Unallocated assets	-	-	32	-	32	-	-	98	-	98
Consolidated total assets	346	110	488	-	488	344	75	517	-	517
Liabilities										
Segment liabilities	(183)	(57)	(240)	(5)	(245)	(186)	(43)	(229)	(5)	(234)
Unallocated liabilities	-	-	(82)	-	(82)	-	-	(56)	-	(56)
Consolidated total liabilities	(183)	(57)	(322)	(5)	(327)	(186)	(43)	(285)	(5)	(290)
Net assets	163	53	166	(5)	161	158	32	232	(5)	227

d) Other Segmental Items

£m	2008					2007				
	High Street	Travel	Continuing operations	Discontinued operations	Group	High Street	Travel	Continuing operations	Discontinued operations	Group
Capital additions	28	11	39	-	39	22	11	33	-	33
Depreciation and amortisation of non-current assets	(32)	(7)	(39)	-	(39)	(33)	(5)	(38)	-	(38)
Impairment losses	(2)	(1)	(3)	-	(3)	(3)	-	(3)	-	(3)

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

WH Smith PLC
Notes to Accounts (continued)

1. Segmental analysis of results (continued)

ii) Segmental analysis by geographical area

The total Group revenue and operating profits originate within Europe. The Directors consider this to be one segment.

2. Group operating profit

£m	2008	2007
Turnover	1,352	1,299
Cost of sales	(720)	(708)
Gross profit	632	591
Distribution costs	(479)	(444)
Administrative expenses	(84)	(75)
<i>Pre-exceptional operating items</i>	(84)	(85)
<i>Exceptional operating items</i>	-	10
Other income ¹	5	5
Group operating profit	74	77

¹ Other income is profit attributable to property and the sale of plant and equipment. During the period there was a £2m impairment charge for property, plant and equipment and other intangible assets included in distribution costs (2007: £3m).

WH Smith PLC
Notes to Accounts (continued)

2. Group operating profit (continued)

£m	2008	2007
Cost of inventories recognised as an expense	720	708
Write-down of inventories in the period	5	6
Depreciation and amounts written off property, plant and equipment	35	35
Amortisation and amounts written off intangible assets	7	6
Net operating lease charges		
- land and buildings	170	148
- equipment and vehicles	1	1
Other occupancy costs	55	53
Staff costs	194	180
Auditors' remuneration (see below)	-	-
Fees payable to Deloitte & Touche 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	0.2	0.1
	0.5	0.4

WH Smith PLC
Notes to Accounts (continued)

3. Retirement benefit obligation

WH Smith PLC has operated a number of defined benefit and defined contribution pension plans. The main pension arrangements for employees are operated through a defined benefit scheme, WHSmith Pension Trust, and a defined contribution scheme, WH Smith Retirement Savings Plan. The most significant scheme is WHSmith Pension Trust, which is described in Note 3 a) i). The scheme is independent of the Company and is administered by a Trustee. The Trustee of the Pension Trust has extensive powers over the pension plan's arrangements, including the ability to determine the levels of contribution. The scheme has been closed to new members since 1996.

As part of the acquisition of UNS Group Limited, the Group acquired its defined benefit pension scheme, United News Shops Retirement Benefits Scheme. United News Shops Retirement Benefits Scheme had no active members at acquisition and is closed to new entrants. The net retirement obligation at acquisition was £nil.

a) Defined benefit pension scheme

i) The WHSmith Pension Trust

On 2 April 2007, the WHSmith Pension Trust was closed to defined benefit service accrual. The actuarial impact of this change on the liabilities of the WHSmith Pension Trust has been reflected in the non cash curtailment gain of £10m in the prior year.

During the year, the Group made a contribution of £10m to the WHSmith Pension Trust (2007: £10m) in accordance with the agreed pension deficit funding schedule. In the prior year the Group also made a one off contribution of £25m as part of the demerger from Smiths News PLC.

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 2006 by independent actuaries, Mercer Limited, using the projected unit credit method.

In September 2005, the Pension Trust Trustee adopted a new investment policy in order to substantially reduce the volatility in the underlying investment performance and reduce the risk of a significant increase in the deficit in the fund. The assets in the investment fund were restructured in order to adopt this policy. This involved the assets being invested such that they are expected to alter in value in line with changes in the pension liability caused by changes in interest and inflation ('a Liability Driven Investment 'LDI' policy').

The key features of this new investment policy were that:

- 96% of the Pension Trust's assets were invested in an LDI policy with a leading international institutional fund manager; and
- 4% of the Pension Trust's assets were used to purchase a portfolio of long-dated equity call options. These represented a notional exposure to underlying equities of some £193m.

The amounts recognised in the balance sheet within non-current liabilities in relation to this plan are as follows:

£m	2008	2007
Present value of the obligations	(662)	(657)
Fair value of plan assets	793	657
Surplus in the scheme	131	-
Amounts not recognised	(131)	-
Retirement benefit obligation recognised in the balance sheet	-	-

The pension scheme is closed to further accrual and given the LDI policy adopted by the Pension Trustees, the present value of the economic benefits of the IAS 19 surplus in the pension scheme of £131m (2007: £nil) available on a reduction of future contributions is £nil (2007: £nil). As a result the Group has not recognised this IAS 19 surplus on the balance sheet. On an ongoing funding basis the gross actuarial defined benefit pension deficit at 31 August 2008 for WH Smith PLC was approximately £60m (approximately £43m net of related deferred taxes) (2007: approximately £46m and approximately £33m net of related deferred taxes) for the Pension Trust. There is an ongoing deficit primarily due to the different assumptions and calculation methodologies used compared to those under IAS 19.

WH Smith PLC
Notes to Accounts (continued)

3. Retirement benefit obligation (continued)

a) Defined benefit pension scheme (continued)

i) The WHSmith Pension Trust (continued)

The valuation of the defined benefit pension scheme used for the IAS 19 disclosures is based upon the most recent valuation. Scheme assets are stated at their market value at the relevant reporting date.

The principal long-term assumptions used in the actuarial valuation were:

%	2008	2007
Rate of increase in salaries	4.10	4.24
Rate of increase in pension payments and deferred pensions	4.07	3.24
Discount rate	6.25	5.53
Inflation assumptions	4.07	3.24

The amounts recognised in the income statement were as follows:

£m	2008	2007
Current service cost	-	(4)
Curtailment gain	-	10
Interest cost	(36)	(34)
Expected return on scheme assets	36	32
	-	4

The charge for the current service cost and the prior year exceptional curtailment gain have been included in administrative costs. The interest cost net of the expected return on scheme assets has been included in finance costs. Actuarial gains and losses have been reported in the statement of recognised income and expense.

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

£m	2008	2007
At 1 September	(657)	(674)
Current service cost	-	(4)
Interest cost	(36)	(34)
Actuarial gains and losses	11	22
Curtailment gain	-	10
Benefits paid	20	23
At 31 August	(662)	(657)

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

£m	2008	2007
At 1 September	657	608
Expected return on scheme assets	36	32
Actuarial gains and losses	110	1
Contributions from the sponsoring companies	10	39
Benefits paid	(20)	(23)
At 31 August	793	657

WH Smith PLC
Notes to Accounts (continued)

3. Retirement benefit obligation (continued)

a) Defined benefit pension scheme (continued)

i) The WHSmith Pension Trust (continued)

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

£m	2008	2007
Cash	653	645
Inflation swaps	112	(29)
Equity call options	28	41
	793	657

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 2008 this was 5.10 per cent (2007: 5.57 per cent).

The mortality assumptions (in years) underlying the value of the accrued liabilities for both 2007 and 2008 are:

	Male	Female
Life expectancy at age 65		
Member currently aged 65	20.1	22.9
Member currently aged 45	21.4	24.1
Life expectancy at age 60		
Member currently aged 60	24.9	27.7
Member currently aged 45	25.9	28.7

The mortality assumptions are based on the standard PA92 medium cohort tables (as published by the Institute of Actuaries). The mortality rates underlying the table have been increased by 25 per cent to reflect the Trust's actual experience.

The five year history of experience adjustments is as follows:

£m	2008	2007	2006	2005	2004
Present value of defined benefit obligations	(662)	(657)	(674)	(651)	(612)
Fair value of scheme assets	793	657	608	598	473
Surplus / (deficit) in the scheme	131	-	(66)	(53)	(139)

Experience adjustments on scheme liabilities

Amount (£m)	(14)	22	(7)	(75)
Percentage of scheme liabilities (%)	2	(3)	1	11

Experience adjustments on scheme assets

Amounts (£m)	110	1	(17)	48
Percentage of scheme assets (%)	14	-	(3)	8

WH Smith PLC
Notes to Accounts (continued)

3. Retirement benefit obligation (continued)

a) Defined benefit pension scheme (continued)

ii) United News Shops Retirement Benefits Scheme

United News Shops Retirement Benefits Scheme is closed to new entrants. The scheme provides pension benefits for pensioners and deferred members.

A full actuarial valuation of the Scheme is carried out every three years with interim reviews in the intervening years. The latest full actuarial valuation of the Pension Trust was carried out at 5 April 2006 by independent actuaries.

The valuation of the defined benefit pension scheme used for the IAS 19 disclosures is based upon the most recent valuation and uses 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	2008	2007
Present value of the obligations	(4)	-
Fair value of plan assets	4	-
Retirement benefit obligation recognised in the balance sheet	-	-

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 2008 (2007: £2m).

4. Investment income

£m	2008	2007
Interest on bank deposits	4	4
Interest from prior period tax overpayments	1	1
	5	5

5. Finance costs

£m	2008	2007
Interest payable on bank loans and overdrafts	1	1
Net charge on pension schemes (Note 3)	-	2
Unwinding of discount on provisions	1	1
Interest on obligations under finance leases	1	1
Loss on cash flow hedges	-	1
	3	6

WH Smith PLC
Notes to Accounts (continued)

6. Income tax expense

£m	2008	2007
Tax on profit before exceptional items	22	23
<i>Blended standard rate of UK corporation tax 29.17% (2007: 30%)</i>		
Adjustment in respect of prior year UK corporation tax	(8)	(8)
Total current tax charge before exceptional items	14	15
Deferred tax – current year	3	(2)
Tax on profit before exceptional items	17	13
Tax on exceptional items	-	3
Tax on profit after exceptional items	17	16
<i>Effective tax rate on continuing activities before exceptional items</i>	<i>23%</i>	<i>20%</i>

Reconciliation of the taxation charge

£m	2008	2007
Tax on profit before exceptional items at standard rate of UK corporation tax 29.17% (2007: 30%)	22	20
Tax effect of items that are not deductible or not taxable in determining taxable profit	2	1
Tax rate differential	1	-
Deferred tax charge in relation to retirement benefit obligation adjustments	-	3
Adjustment in respect of prior years	(8)	(8)
Tax charge after exceptional items	17	16

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

7. Dividends

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

£m	2008	2007
Dividends		
Interim of 4.6p per ordinary share (2007: 3.7p per ordinary share)	7	6
Final of 8.1p per ordinary share (2007: 6.2p per ordinary share)	14	11
Special interim dividend of 33p per ordinary share (2007: nil)	57	-
	78	17

The proposed dividend of 9.7p per share is not included as a liability in these financial statements and, subject to shareholder approval, will be paid on 5 February 2009 to shareholders on the register at the close of business on 9 January 2009.

WH Smith PLC
Notes to Accounts (continued)

8. Earnings per share

These are derived from continuing operations.

a) Earnings

£m	2008	2007
Underlying earnings attributable to shareholders (note i)	59	53
Exceptional items net of related taxation	-	7
Earnings attributable to shareholders	59	60

b) Basic earnings per share

Pence	2008	2007
Underlying earnings per share (note i)	36.4	30.3
Exceptional items net of related taxation	-	4.0
Earnings per share (note ii)	36.4	34.3

- i) Underlying earnings and underlying earnings per share have been calculated using profit after tax but before exceptional items.
 ii) Basic earnings per share has been calculated using profit after tax and exceptional items.

c) Diluted earnings per share

Pence	2008	2007
Underlying earnings per share	35.3	29.3
Exceptional items net of related taxation	-	3.8
Earnings per share	35.3	33.1

d) Weighted average share capital

Millions	2008	2007
Weighted average shares in issue for earnings per share	162	175
Add weighted average number of ordinary shares under option	5	6
Weighted average ordinary shares for diluted earnings per share	167	181

No adjustment is required to comparative earnings per share values as the special dividend of 33p per ordinary share and the share consolidation of 67 new ordinary shares for every 74 existing ordinary shares which occurred in the year, are effectively a repurchase at fair value.

WH Smith PLC
Notes to Accounts (continued)

9. Analysis of net funds / (debt)

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

£m	2007	Cash flow	Non-cash	2008
Cash and cash equivalents	82	(60)	-	22
Debt				
- Revolving credit facility	-	(25)	-	(25)
- Sterling floating rate	(9)	9	-	-
Obligations under finance leases	(9)	3	-	(6)
Net funds / (debt)	64	(73)	-	(9)

£m	2006	Cash flow	Non-cash	2007
Cash and cash equivalents	66	16	-	82
Debt				
- Sterling floating rate	(13)	4	-	(9)
Obligations under finance leases	(11)	3	(1)	(9)
Net funds	42	23	(1)	64

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

At 31 August 2008, floating rate debt comprised the Group's utilisation of £25m (2007: £nil) of its five-year committed revolving credit facility of £90m. The revolving credit facility is due to mature on 26 June 2011. The utilisation is interest bearing at LIBOR plus 60bps. During the period in accordance with the terms of the loan notes the Group repaid the remaining unsecured loan notes, bearing interest at a rate of 100 basis points below six month LIBOR.

10. Net cash inflow from operating activities

£m	2008	2007
Operating profit from continuing operations	74	77
Operating exceptional items	-	(10)
Pension funding	(10)	(35)
Depreciation of property, plant and equipment	33	33
Profit on sale of property, plant and equipment	-	(2)
Impairment of property, plant and equipment	2	2
Amortisation of intangible assets	6	5
Impairment of intangible assets	1	1
Share-based payments	6	6
(Increase) / decrease in inventories	(3)	2
Increase in receivables	(10)	(6)
Increase in payables	15	13
Income taxes (paid) / received	(7)	5
Cash spend against provisions	(3)	(2)
Net cash inflow from operating activities before exceptional items	104	89
Cash outflow relating to exceptional operating items	-	(6)
Net cash from operating activities	104	83

WH Smith PLC
Notes to Accounts (continued)

11. Analysis of retail stores and selling space

Number of stores

	1 September 2007	Opened	Acquired	Closed	31 August 2008
High Street	544	9	7	(3)	557
Travel	135	10	73	(3)	215
Total	679	19	80	(6)	772

A Travel store may consist of multiple units within one location. On an individual unit basis, Travel stores and the motorway stores (operated under franchise and not included in the store numbers above) can be analysed as follows:

Number of Travel units

	1 September 2007	Opened	Acquired	Closed	31 August 2008
Travel	223	28	95	(6)	340
Motorway franchise units	86	15	-	-	101
Caffè Nuovo	-	-	8	-	8
Total	309	43	103	(6)	449

**Retail selling square feet
(000's)**

	1 September 2007	Opened	Acquired	Closed	Redeveloped	31 August 2008
High Street	2,997	24	14	(11)	(19)	3,005
Travel	239	40	92	(7)	-	364
Total	3,236	64	106	(18)	(19)	3,369

Travel Retail selling square feet does not include motorway franchise units.

12. Preparation of the preliminary announcement

a) Basis of preparation

The preliminary announcement for the 12 months to 31 August 2008 has been prepared on the basis of the financial accounting policies set out in the Accounting Policies section of the WH Smith PLC Annual Report and Accounts 2007.

b) Preliminary announcement

The financial information for the 12 months to 31 August 2008 and 12 months to 31 August 2007 do not comprise statutory accounts for the purpose of Section 240 of the Companies Act 1985 and have been extracted from the Company's consolidated accounts for the year to 31 August 2008. The statutory accounts for WH Smith PLC for the 12 months to 31 August 2007 have been filed with the Registrar of Companies and those for the 12 months to 31 August 2008 will be filed following the Company's annual general meeting. The auditors' reports on the accounts for the 12 months to 31 August 2008 were unqualified and did not include a statement under Section 237 (2) or (3) of the Companies Act 1985.

Whilst the information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of IFRSs, this announcement does not itself contain sufficient information to comply with IFRSs.

The Annual Report and Accounts will be available for shareholders in November 2008.