WH Smith PLC

Group Income Statement for the year ended 31 August 2006

£m	Note	2006 Before exceptional items	2006 Exceptional items	2006 Total	2005 Before exceptional items	2005 Exceptional items	2005 Total
Continuing operations							
Revenue	2	1,340	-	1,340	1,423	-	1,423
Operating profit	2, 3, 4	**60**	**(7)**	**53**	**47**	**-**	**47**
Investment income		2	-	2	3	-	3
Finance costs		(11)	-	(11)	(11)	-	(11)
Profit before tax		**51**	**(7)**	**44**	**39**	**-**	**39**
Income tax expense	7	(10)	(2)	(12)	(9)	-	(9)
Profit after tax from continuing operations		**41**	**(9)**	**32**	**30**	**-**	**30**
Loss for the year from discontinued operations	5	-	-	-	-	(8)	(8)
Profit for the year		**41**	**(9)**	**32**	**30**	**(8)**	**22**

	Note	2006	2005
Earnings per share[(1)]			
Basic – continuing operations	9	18.6p	16.9p
Diluted – continuing operations	9	18.2p	16.8p
Basic	9	18.6p	12.4p
Diluted	9	18.2p	12.3p
Non GAAP measures			
Headline earnings per share[(2)]			
Basic – continuing operations	9	25.0p	17.5p
Diluted - continuing operations	9	24.4p	17.3p
Basic	9	25.0p	17.5p
Diluted	9	24.4p	17.3p
Equity dividends per share[(3)]		6.2p	
Fixed charges cover		1.3x	1.3x

(1) Earnings per share is calculated in accordance with IAS 33 ‘Earnings per share’
(2) Headline earnings per share excludes exceptional items and IAS 19 pension interest
(3) Dividend per share is the final proposed dividend

WH Smith PLC

Group Balance Sheet at 31 August 2006

£m	Note	2006	2005
Non-current assets			
Goodwill		15	15
Other intangible assets		15	14
Property, plant and equipment		184	197
Deferred tax assets		29	38
Trade and other receivables		5	16
		248	**280**
Current assets			
Inventories		143	148
Trade and other receivables		69	75
Cash and cash equivalents	10	66	39
		278	**262**
Total assets		**526**	**542**
Current liabilities			
Trade and other payables		(215)	(216)
Current tax liabilities		(20)	(26)
Obligations under finance leases	10	(3)	(4)
Bank overdrafts and other borrowings	10	(13)	(45)
Short-term provisions		(4)	(5)
		(255)	**(296)**
Non-current liabilities			
Bank loans and other borrowings	10	-	(37)
Retirement benefit obligation	6	(66)	(60)
Deferred tax liabilities		(13)	(14)
Long-term provisions		(8)	(11)
Obligations under finance leases	10	(8)	(11)
Other non-current liabilities		(8)	(8)
		(103)	**(141)**
Total liabilities		**(358)**	**(437)**
Total net assets		**168**	**105**
Total equity		**168**	**105**

WH Smith PLC

Group Balance Sheet at 31 August 2006 (continued)

£m	Note	2006	Proforma 2005
Total equity			
Called up share capital	13	357	353
"B" share reserves		-	2
"C" share reserves		-	8
ESOP reserves		(22)	(26)
Revaluation reserve		3	3
Hedging reserve		(2)	-
Translation reserve		(2)	-
Other reserve		(166)	(234)
Retained earnings		-	(1)
		168	**105**

WH Smith PLC

Group Cash Flow Statement for the year ended 31 August 2006

£m	Note	2006	2005
Net cash inflows / (outflows) from operating activities	12	**82**	**(23)**
Investing activities			
Interest received		2	4
Proceeds on disposal of property, plant and equipment		9	2
Proceeds on disposal of subsidiary		-	222
Proceeds on settlement of loan notes		11	-
Non-operating disposal costs		(3)	(10)
Purchase of property, plant and equipment		(24)	(29)
Purchase of intangible assets		(5)	(1)
Net cash (outflows) / inflows from investing activities		**(10)**	**188**
Financing activities			
Interest paid		(7)	(6)
Dividend paid		(15)	(11)
"C" share dividend paid on capital reorganisation		-	(143)
Purchase of shares for employee share schemes		-	(12)
Money returned to ESOP Trust after share capital reorganisation		-	5
Issue of shares to satisfy employee share schemes		4	2
Repurchase of "C" shares equity portion		(3)	(62)
Repayments of borrowings		(76)	-
Repayments of obligations under finance leases		(4)	(3)
New bank loans raised (net of financing costs)		-	61
Derivative cash movements		(1)	-
Movement in funding balances with the News business		57	(8)
Net cash used in financing activities		**(45)**	**(177)**
Net increase / (decrease) in cash and cash equivalents – continuing operations		19	(2)
Net increase / (decrease) in cash and cash equivalents – discontinued operations		8	(10)
Net increase / (decrease) in cash and cash equivalents in year		**27**	**(12)**
Opening net cash and cash equivalents		39	51
Closing net cash and cash equivalents		**66**	**39**
Reconciliation of net cash flow to movement in net (debt) / funds			
Net (debt) / funds at beginning of the year		**(58)**	**26**
IAS 39 – "B" and "C" shares classified as financial liabilities		(7)	-
Increase / (decrease) in cash and cash equivalents		27	(12)
Decrease / (increase) in debt		76	(63)
Net movement in finance leases		4	(9)
Net funds / (debt) at end of the year	10	**42**	**(58)**

WH Smith PLC

Group Statement of Recognised Income and Expense for the year ended 31 August 2006

£m	2006	2005
Exchange differences arising on translation of foreign operations	(2)	-
Loss on cash flow hedges	(2)	-
Actuarial losses on defined pension schemes (Note 6)	(24)	(27)
UK deferred tax attributable to pension scheme liabilities	5	(10)
UK current tax attributable to the additional pension scheme contributions	3	13
Net expense recognised directly in equity	**(20)**	**(24)**
Profit for the year	**32**	**22**
Total recognised income and expense for the year	**12**	**(2)**

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

£m	Share Capital	"B" and "C" share reserves	Hedging and Translation Reserves	Revaluation Reserve	ESOP Reserve	Other Reserve	Retained Earnings	Total
Balance at 1 September 2004	-	2	-	-	-	-	-	**2**
Capital reorganisation and proforma restatement	352	70	-	3	(20)	(238)	151	**318**
Restated at 1 September 2004	352	72	-	3	(20)	(238)	151	**320**
Total recognised income and expense for the year	-	-	-	-	-	-	(2)	**(2)**
Recognition of share based payments	-	-	-	-	-	-	4	**4**
Dividends paid	-	-	-	-	-	-	(154)	**(154)**
Repurchase of shares	-	-	-	-	(11)	-	-	**(11)**
Employee share schemes	1	-	-	-	-	1	-	**2**
Cancellation of shares	-	(62)	-	-	-	-	-	**(62)**
Money returned to ESOP Trust after share capital reorganisation	-	-	-	-	5	-	-	**5**
Movement in funding balances with the News business	-	-	-	-	-	3	-	**3**
Balance at 1 September 2005	**353**	**10**	**-**	**3**	**(26)**	**(234)**	**(1)**	**105**
Cumulative adjustment for implementation of IAS 39	-	(7)	-	-	-	-	-	**(7)**
Balance restated at 1 September 2005 for adoption of IAS 39	**353**	**3**	**-**	**3**	**(26)**	**(234)**	**(1)**	**98**
Total recognised income and expense for the period	-	-	(4)	-	-	-	16	**12**
Recognition of share-based payments	-	-	-	-	-	-	4	**4**
Dividends paid	-	-	-	-	-	-	(15)	**(15)**
Employee share schemes	4	-	-	-	4	2	(4)	**6**
Repurchase of shares	-	(3)	-	-	-	-	-	**(3)**
Movement in funding balances with the News business	-	-	-	-	-	66	-	**66**
Balance at 31 August 2006	**357**	**-**	**(4)**	**3**	**(22)**	**(166)**	**-**	**168**

WH Smith PLC
Notes

1. Basis of preparation

WH Smith PLC (formerly New WH Smith PLC; formerly Pollquote Limited) was incorporated on 10 August 2004. On 23 June 2006, the company re-registered as a public limited company.

On 31 August 2006, the WH Smith Retail Business was demerged from Smiths News PLC, effected by a dividend in specie.

The shareholders of Smiths News PLC received a dividend in specie in respect of the entire shareholding of New WH Smith PLC. The payment of the dividend was effected as follows:

- Existing shares in WH Smith Retail Holdings Limited (formerly WH Smith PLC), which owned the Retail Business were transferred by Smiths News PLC to New WH Smith PLC (now renamed WH Smith PLC) so that New WH Smith PLC became the holding company of the WH Smith Retail Business; and

- In exchange for such transfer, New WH Smith PLC allotted and issued to Smiths News PLC Shareholders one New WH Smith PLC Share, credited as fully paid, for each Smiths News PLC Share held.

On 30 August 2006 New WH Smith PLC changed its name to WH Smith PLC. The shares of WH Smith PLC were admitted to listing on The London Stock Exchange on 1 September 2006.

In accordance with the principles of reverse acquisition accounting in IFRS 3 – Business Combinations, the accounts of WH Smith PLC have been prepared as if it had been in existence in its current group form since 1 September 2004. The following summarises the accounting principles that have been applied in preparing the accounts on a reverse acquisition accounting basis:

- The income statement for WH Smith PLC has been prepared as if the continuing operations of the WH Smith PLC Group were in existence for the whole of the period from 1 September 2004 through to 31 August 2006.

- Share capital and reserves for the prior year consolidated balance sheet have been restated on a pro forma basis including the 2005 capital reorganisation. Differences between these amounts and the previously reported share capital and reserves have been reflected in the other reserve, as set out in the Reconciliation of movements in equity. The proforma restated share capital for the prior year represents the nominal value of shares in issue as if WH Smith PLC had been in existence in its group form since 1 September 2004.

- As well as costs borne directly by the Retail Business, the results for the year ended 31 August 2006 and 31 August 2005 include £0.8 million of corporate head office costs of the former ultimate parent company which have historically not been recharged by WH Smith PLC to its business divisions. Services provided by WH Smith PLC included, but were not limited to, treasury, cash management, human resources, accounting, legal and professional services and IT services. These charges may not be representative of the costs that would have been incurred had the business been a standalone entity.

International Financial Reporting Standards

The consolidated Group financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. These are those standards, subsequent amendments and related interpretations issued and adopted by the International Accounting Standards Board ('IASB') that have been endorsed by the European Union at the year end. The Group previously reported under UK Generally Accepted Accounting Principles ('UK GAAP').

The consolidated Group financial statements have also been prepared in accordance with IFRS adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

1. Basis of Preparation (continued)

International Financial Reporting Standards (continued)

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

IFRIC 4	Determining whether an Arrangement Contains a Lease
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
Amendment to IAS 39	Cash Flow Hedge Accounting of Forecast Intragroup Transactions

The directors anticipate that the adoption of these Standards and Interpretations in future years will have no material impact on the Group financial statements except for the additional disclosures on capital and financial instruments when the relevant standards come into effect for the financial year commencing on or after 1 September 2006.

Adoption of IAS 32 and IAS 39

The Group implemented IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' in the year commencing 1 September 2005.

The effect of the adoption of IAS 39 is to reduce net assets by £7 million resulting from the reclassification of non-equity share capital to financial liabilities. The Group has designated the majority of its foreign exchange derivatives as cash flow hedges as at 1 September 2005 and there was no effect on the balance sheet in respect of this.

Accounting convention

The financial statements are drawn up on the historical cost basis of accounting. The financial information is rounded to the nearest million, except where otherwise indicated.

Basis of consolidation

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

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

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

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

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

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

2. 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 their disposal, the Publishing business, USA Travel Retail and ASPAC Retail were separate business segments. The information for these businesses, which are presented as discontinued operations, can be found in Note 5.

(i) Segmental analysis by business segments

a) Group revenue

£m	2006	2005
Continuing operations:		
High Street	1,021	1,112
Travel	319	311
Group revenue	**1,340**	**1,423**

b) Group results

£m	2006	2005
Continuing operations:		
High Street	42	37
Travel	31	25
Trading profit	**73**	**62**
Unallocated costs	(13)	(15)
Group operating profit before exceptional items	**60**	**47**
Exceptional items (note 4)	(7)	-
Group operating profit	**53**	**47**
Investment income	2	3
Finance costs	(11)	(11)
Income tax expense	(12)	(9)
Loss for the year from discontinued operations	-	(8)
Profit for the year	**32**	**22**

WH Smith PLC
Notes (continued)
2. Segmental analysis of results (continued)

(i) Segmental analysis by business segments (continued)

(c) Balance Sheet

	2006					2005				
£m	High Street	Travel	Continuing operations	Discontinued operations	Group	High Street	Travel	Continuing operations	Discontinued operations	Group
Assets										
Segment assets	442	74	516	4	**520**	458	53	511	3	**514**
Unallocated assets	-	-	6	-	**6**	-	-	28	-	**28**
Consolidated total assets	**442**	**74**	**522**	**4**	**526**	**458**	**53**	**539**	**3**	**542**
Liabilities										
Segment liabilities	(213)	(38)	(251)	(4)	**(255)**	(224)	(31)	(255)	(6)	**(261)**
Unallocated liabilities	-	-	(103)	-	**(103)**	-	-	(176)	-	**(176)**
Consolidated total liabilities	**(213)**	**(38)**	**(354)**	**(4)**	**(358)**	**(224)**	**(31)**	**(431)**	**(6)**	**(437)**
Net Assets			**168**	**-**	**168**			**108**	**(3)**	**105**

(d) Other Segmental Items

£m	High Street	Travel	Continuing operations	Discontinued operations	Group	High Street	Travel	Continuing operations	Discontinued operations	Group
Capital additions	24	5	29	-	**29**	26	4	30	-	**30**
Depreciation and amortisation of non -current assets	(29)	(5)	(34)	-	**(34)**	(36)	(5)	(41)	-	**(41)**
Impairment losses	(3)	-	(3)	-	**(3)**	-	-	-	-	**-**

Segment assets include intangible assets, property, plant and equipment, inventories, receivables and operating cash. Segment liabilities comprise of operating liabilities. Information on discontinued operations is shown in Note 5.

2. Segmental analysis of results (continued)

(ii) Segmental analysis by geographical area

The total Group revenue and operating profits for these periods originate from the UK/Europe region. The Directors consider this to be one segment.

3. Group operating profit

£m	2006	2005
Turnover	**1,340**	**1,423**
Cost of sales	(761)	(847)
Gross profit	**579**	**576**
Distribution costs	(434)	(437)
Administrative expenses	(97)	(92)
Pre-exceptional operating items	*(90)*	*(92)*
Exceptional operating items [1]	*(7)*	-
Other income [2]	5	-
Group operating profit	**53**	**47**

[1] The exceptional operating items are detailed in Note 4.
[2] Other income is attributable to profit on sale of freehold property, plant and equipment. During the period there was a £3 million impairment charge for property, plant and equipment included in Distribution costs (2005:£nil).

3. Group operating profit (continued)

£m	2006	2005
Cost of inventories recognised as an expense	786	854
Writedown of inventories in the period	12	17
Depreciation and amounts written off property, plant & equipment	33	37
Amortisation of intangible assets	4	4
Net operating lease charges		
- land and buildings	147	140
- equipment and vehicles	1	2
Other occupancy costs	50	45
Staff costs	192	199
Auditors' remuneration (see below)	2	1

Fees payable to Deloitte & Touche LLP, the Group's auditors, included in the income statement related to:

Audit fees	0.2	0.2
Non-audit fees	1.9	0.2
	2.1	**0.4**

Fees payable to Deloitte & Touche LLP, the Group's auditors, included in the income statement relating to audit fees amount to £0.2m (2005: £0.2m), and non-audit fees of £1.9m (2005: £0.2m) which comprise further assurance services in respect of the demerger of the business of £1.9m (2005: £nil), tax compliance services £nil (2005: £0.1m), and IFRS preparation work £nil (2005: £0.lm).

4. Continuing operations exceptional items

Exceptional items are material items of income or expense that are disclosed separately due to their nature or amount. They are disclosed and described separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the group.

£m	2006	2005
Settlement of Post Retirement Medical Benefit Scheme	5	-
Costs of demerger from Smiths News PLC	(12)	-
	(7)	**-**

In September 2005, members of the post retirement medical benefits scheme were offered the option to be bought out of the scheme, which was accepted by the majority of members. A gain of £5 million (before tax) arose from the settlement of this scheme, which has been recognised in the Income Statement for the period. Further details are included in Note 6.

The Group has a £12 million exceptional charge in relation to costs associated with the demerger from Smiths News PLC.

5. Discontinued operations

Results from discontinued operations

The results from discontinued operations were as follows:

£m	2006	2005
Revenue		
Publishing business		
Total revenue	-	14
Internal revenue	-	(3)
Total revenue	**-**	**11**
USA Travel Retail	**-**	**-**
Total revenue – discontinued operations	**-**	**11**

	2006			2005		
£m	Publishing business	USA Travel Retail	Total	Publishing business	USA Travel Retail	Total
Profit before tax and before exceptional items	-	-	-	-	-	-
Income Tax Expense	-	-	-	-	-	-
Profit after tax and before exceptional items and loss on sale	**-**	**-**	**-**	**-**	**-**	**-**
Exceptional trading items	-	-	-	-	-	-
Impairment on sale of discontinued operations	-	-	-	-	(8)	(8)
Income Tax Expense	-	-	-	-	-	-
Exceptional items after tax	**-**	**-**	**-**	**-**	**(8)**	**(8)**
Loss for the period from discontinued operations	**-**	**-**	**-**	**-**	**(8)**	**(8)**

The cash flows of discontinued operations comprise:

£m	2006	2005
From operating activities	-	-
From investing activities	8	(10)
From financing activities	-	-
Net increase / (decrease) in cash and cash equivalents	**8**	**(10)**

5. Discontinued operations (continued)

Publishing business disposal
On 25 September 2004, the Group completed the disposal of its Publishing business, Hodder Headline Limited. A financial summary of the disposal is shown below:

£m	
Fixed assets	156
Inventories	17
Debtors	80
Creditors	(30)
Net pension liabilities	(14)
Net assets disposed	**209**
Cash consideration	210
Cash received in respect of working capital adjustments	5
Net assets disposed	(209)
Transaction costs and other charges	(6)
Net result on sale of the Publishing business recognised in the financial year	**-**

The Group incurred a £5 million cash outflow in respect of transaction costs and other charges relating to the Publishing business disposal.

USA Travel Retail
£8 million was charged to the Income Statement in the prior year relating to the disposal of discontinued businesses. Of this amount, £7 million related to an impairment review of the loan notes received as deferred consideration on the previous disposal of the Groups USA business, and the balance related to closure and exit provisions.

Aspac Retail
During the year ended 31 August 2005, £7 million was received for the Aspac Retail disposal, which related to deferred consideration and working capital adjustments.

6. Retirement benefit obligation

The WH Smith Group has operated a number of defined benefit and defined contribution pension plans. The main pension arrangements for employees are operated through a defined benefit scheme, WHSmith Pension Trust, and a defined contribution scheme, WHSmith Retirement Savings Plan. The most significant is the defined benefit WHSmith Pension Trust for the Group's UK employees which is described in note 6 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 plans' arrangements, including the ability to determine the levels of contribution.

Segregation of assets and liabilities of each pension scheme into two sections

On the date of the Demerger, the assets and liabilities of the defined benefit scheme have been split between the WH Smith Retail business (owned by WH Smith PLC) and the News business (owned by Smiths News PLC) by way of a "sectionalisation" of the defined benefit scheme into two different sections (i.e. the WH Smith Retail business section and the News business section). The two sections will remain within the defined benefit scheme. Similarly, the assets and liabilities of the defined contribution scheme will be separated (or "sectionalised") into two different sections, a WH Smith Retail business section and a News business section, with each section only containing the accounts of members who are or were employed by the relevant business. The two sections will remain within the WH Smith Retirement Savings Plan.

Upon sectionalisation of the defined benefit scheme, the assets and liabilities of the defined benefit scheme have been allocated to the WH Smith Retail business section and the News business section in proportions that reflect the number of active, deferred, pensioner and orphan members belonging to the respective businesses. Orphan members are members (or spouses of members) whose employer had left the group prior to the split but were classified as either News or Retail for the purpose of the sectionalisation. These proportions are currently estimated to be 65 per cent, for the WH Smith Retail business and 35 per cent, for the News business. The participating employers of the WH Smith Retail business will contribute to the WH Smith Retail business section, and the participating employers of the News business will contribute to the News business section.

Assets apportioned to one section of the Pension Trust will not be able to be used for the purposes of the other section. There will be no cross-subsidy or cross-guarantee between the sections of the Pension Trust. However, for administration and investment purposes the Pension Trust will operate generally on a unified basis, except that the principal employers will be replaced with a sponsor for each section.

On 1 September 2006, a one- off contribution of £25 million was made to the Pension Trust by the Company.

The amounts recognised in the balance sheet within non current liabilities in relation to these plans are as follows:

£m	**2006**	**2005**
Continuing operations		
Present value of the obligations	(674)	(651)
Fair value of plan assets	608	598
Deficit	**(66)**	**(53)**
Retirement medical benefit liability	-	(7)
Retirement benefit obligation recognised in the balance sheet	**(66)**	**(60)**
Deferred taxation	20	18
Net retirement obligation	**(46)**	**(42)**

6. Retirement benefit obligation (continued)

a) Defined benefit pension scheme

(i) The WHSmith Pension Trust

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 Human Resource Consulting, using the projected unit basis, and as with each such triennial valuation, the valuation currently remains subject to the formal approval of the Pension Trust Trustee. The scheme was closed in September 1995 and under the projected unit method the current service cost would be projected to increase as members approach retirement and the age profile of members increases. On an ongoing basis the gross actuarial defined benefit pension deficit for WH Smith PLC was approximately £96 million (approximately £67 million net of related deferred taxes) for the Pension Trust. The ongoing deficit is greater than the IAS 19 deficit primarily due to the different assumptions and calculation methodologies.

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:

- 94% of the Pension Trust's assets was invested in an LDI policy with a leading international institutional fund manager; and
- 6% of the Pension Trust's assets was used to purchase a portfolio of long-dated equity call options. These represented a notional exposure to underlying equities of some £350 million.

The impact of this change in investment policy is to substantially reduce the volatility in the fund and the resultant risk of a significant increase in the overall deficit whilst enabling the fund to continue to benefit from any potential higher returns in the equity markets.

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:

%	2006	2005
Rate of increase in salaries	4.00%	3.70%
Rate of increase in pension payments and deferred pensions	3.00%	2.70%
Discount rate	5.10%	4.90%
Inflation assumptions	3.00%	2.70%

6. Retirement benefit obligation (continued)

(a) Defined benefit pension scheme (continued)

(i) The WH Smith Pension Trust (continued)

The amounts recognised in the income statement were as follows:

£m	2006	2005
Current service cost	(6)	(6)
Interest cost	(32)	(31)
Expected return on scheme assets	29	30
	(9)	(7)

The charge for the current service cost has been included in administrative costs.

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

£m	2006	2005
At 1 September	(651)	(559)
Current service cost	(6)	(6)
Interest cost	(32)	(31)
Actuarial gains and losses	(7)	(75)
Benefits paid	22	20
As at 31 August	**(674)**	**(651)**

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

£m	2006	2005
At 1 September	598	443
Expected return on scheme assets	29	30
Actuarial gains and losses	(17)	48
Contributions from the sponsoring companies	20	97
Benefits paid	(22)	(20)
As at 31 August	**608**	**598**

6. 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	2006	2005
Equities	-	265
Bonds	-	333
Cash	584	-
Inflation swaps	(14)	-
Equity call options	38	-
	608	**598**

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

	2006	2005
Equities	-	7.00%
Bonds	-	4.00%
Cash (1)	-	3.75%
Inflation swaps (1)	-	-
Equity call options (1)	-	-

(1) The expected rate of return on these investments is calculated as a weighted average of the expected return on the LDI fund and the equity call options and at 31 August 2006 was 5.01 per cent.

Prior to 22 September 2005, the overall expected rate of return on the Trust's assets was calculated as a weighted average return based on the distribution of the assets (between equities, bonds and cash, at the accounting date). On 22 September 2005, the investment strategy was altered to invest in a Liability Driven Investment (LDI) fund and a number of equity call options.

The mortality assumptions (in years) underlying the value of the accrued liabilities 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.

6. Retirement benefit obligation (continued)

(a) Defined benefit pension scheme (continued)

(i) The WH Smith Pension Trust (continued)

The four year history of experience adjustments is as follows:

£m	2006	2005	2004	2003
Present value of defined benefit obligations	(674)	(651)	(612)	(585)
Fair value of scheme assets	608	598	473	441
Deficit in the scheme	**(66)**	**(53)**	**(139)**	**(144)**

	2006	2005
Experience adjustments on scheme liabilities		
Amount (£m)	(7)	(75)
Percentage of scheme liabilities (%)	1	11
Experience adjustments on scheme assets		
Amounts (£m)	(17)	48
Percentage of scheme assets (%)	(3)	8

(ii) Post retirement medical benefits

The WH Smith Group provides retirement medical benefits to certain pensioners. Total premiums paid by the Group during the period in respect of these benefits were £0.1 million (31 August 2005: £0.4 million). The present value of the future liabilities under this arrangement at each reporting date has been assessed by independent actuaries (Mellon Human Resources & Investor Solutions (Actuaries & Consultants Limited)) and this amount was included on the balance sheet within retirement benefit obligations.

In September 2005, the members were offered the option to be bought out of this scheme, which was accepted by the majority of the members. The impact of the settlement was a £5 million reduction in the net deficit. A small number of members opted to remain in the scheme and the present value of the remaining future liabilities is valued at £0.1 million net of deferred taxation.

b) Defined contribution pension scheme

The pension cost charged to income for the Group's defined contribution scheme, WH Smith Retirement Savings Plan, amounted to £2 million for the year ended 31 August 2006 (31 August 2005: £2 million).

c) Discontinued pension schemes

Year ended 31 August 2005

Publishing Business
On 25 September 2004, the Group completed the disposal of the Publishing business, including the disposal of that business' pension fund. The gross deficit at the date of disposal was £20 million.

USA Travel Retail Business
The Group made a settlement of £3 million in respect of the pension liabilities of this business.

7. Income tax expense

£m	2006	2005
Tax on profit before exceptional items	4	14
Standard rate of UK corporation tax 30%		
Adjustment in respect of prior year UK corporation tax	(7)	(3)
Total current tax charge before exceptional items	**(3)**	**11**
Deferred tax – current year	13	(2)
Tax on profit before exceptional items	**10**	**9**
Tax on exceptional items	2	-
Tax on profit after exceptional items	**12**	**9**
Effective tax rate on continuing activities before exceptional items	*20%*	*23%*

Reconciliation of the taxation charge

£m	2006	2005
Tax on profit before exceptional items at standard rate of UK corporation tax 30%	15	12
Tax effect of items that are not deductible or not taxable in determining taxable profit	2	1
Depreciation for which no tax relief is available	-	1
Utilisation of tax losses	(13)	-
Adjustment in respect of prior years	(7)	(3)
Current tax charge	**(3)**	**11**

8. Dividends

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

£m	2006	2005
Dividends		
Interim – paid	5	4
Final - paid	10	7
	15	**11**
“C” share dividends		
“C” share dividend paid on capital reorganisation	**-**	143
	15	**154**

The proposed dividend of 6.2p per share is not included as a liability in these financial statements and, subject to shareholder approval, will be paid on 6 February 2007 to shareholders on the register at the close of business on 5 January 2007.

8. Dividends (continued)

In the prior year, the Group paid a "C" share dividend of £142,533,945 to the holders of 167,686,994 "C" shares in accordance with the terms of a capital reorganisation, and upon payment of this dividend, these "C" shares were converted to deferred shares, which have now been cancelled in the year ended 31 August 2006.

The Group also paid a dividend of £282,688 during the year to 31 August 2006 (31 August 2005: £156,647) in respect of "C" shares, and paid dividends on the "B" shares of £81,555 during the year to 31 August 2006 (31 August 2005: £45,192).

9. Earnings /(loss) per share

a) Earnings

	2006			2005		
£m	**Continuing**	**Discontinued**	**Total**	**Continuing**	**Discontinued**	**Total**
Headline earnings attributable to shareholders	43	-	43	31	-	31
Pension interest net of related taxation	(2)	-	(2)	(1)	-	(1)
Exceptional items net of related taxation	(9)	-	(9)	-	(8)	(8)
Profit / (loss) attributable to shareholders	**32**	**-**	**32**	**30**	**(8)**	**22**

b) Basic earnings / (loss) per share

	2006			2005		
Pence	**Continuing**	**Discontinued**	**Total**	**Continuing**	**Discontinued**	**Total**
Headline earnings per share (note a)	25.0	-	25.0	17.5	-	17.5
Pension interest net of related taxation	(1.2)	-	(1.2)	(0.6)	-	(0.6)
Exceptional items net of related taxation	(5.2)	-	(5.2)	-	(4.5)	(4.5)
Earnings / (loss) per share (note b)	**18.6**	**-**	**18.6**	**16.9**	**(4.5)**	**12.4**

a) Headline earnings per share has been calculated using profit after tax but before exceptional items and IAS 19 net interest charges on the defined benefit pension scheme.
b) Basic earnings per share has been calculated using profit after tax and exceptional items.

9. Earnings /(loss) per share (continued)

c) Diluted earnings / (loss) per share

	2006			2005		
Pence	**Continuing**	**Discontinued**	**Total**	**Continuing**	**Discontinued**	**Total**
Headline earnings per share	24.4	-	24.4	17.3	-	17.3
Pension interest net of related taxation	(1.1)	-	(1.1)	(0.5)	-	(0.5)
Exceptional items net of related taxation	(5.1)	-	(5.1)	-	(4.5)	(4.5)
Earnings / (loss) per share	**18.2**	**-**	**18.2**	**16.8**	**(4.5)**	**12.3**

Diluted earnings per share takes into account various share awards and share options including SAYE schemes, which are expected to vest, and for which a sum below fair value will be paid.

d) Weighted average share capital

£m	2006	2005
Weighted average shares in issue for earnings per share	**172**	**177**
Add weighted average number of ordinary shares under option	4	2
Weighted average ordinary shares for diluted earnings per share	**176**	**179**

10. Analysis of net funds / (debt)

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

£m	2005	IAS32 and 39 reclassifications	Cash flow	Non-cash	2006
Cash and cash equivalents	39	-	27	-	66
Debt					
- Sterling floating rate	(50)	(7)	44	-	(13)
- Sterling fixed rate	(32)	-	32	-	-
Obligations under finance leases	(15)	-	4	-	(11)
Net (debt) / funds	**(58)**	**(7)**	**107**	**-**	**42**

£m	2004	Cash flow	Non-cash	2005
Cash and cash equivalents	51	(12)	-	39
Debt				
- Sterling floating rate	(17)	(33)	-	(50)
- Sterling fixed rate	(2)	(30)	-	(32)
Obligations under finance leases	(6)	(3)	(6)	(15)
Net funds / (debt)	**26**	**(78)**	**(6)**	**(58)**

11. Contingent liabilities and Capital commitments

£m	2006	2005
Bank and other loans guaranteed	**6**	**11**

No amount has been included above for taxation that would arise in the event of certain international subsidiaries distributing the balance of their reserves.

Other potential liabilities that could crystallise are in respect of previous assignments of leases where the liability could revert to the Group if the lessee defaulted. Pursuant to the terms of the Demerger Agreement, any such contingent liability which becomes an actual liability will be apportioned between the Group and Smiths News PLC in the ratio 65:35 (provided that the actual liability of Smiths News PLC in any 12 month period does not exceed £5 million). The Group's 65% share of these leases has an estimated future gross rental commitment at 31 August 2006 of £102 million (31 August 2005: £118 million).

Contracts placed for future capital expenditure approved by the directors but not provided for in this combined financial information amount to £5 million (31 August 2005: £4 million).

12. Net cash inflow / (outflow) from operating activities

£m	2006	2005
Operating Profit from continuing operations	**53**	**47**
Operating exceptional items	7	-
Adjustment for pension funding	(12)	(90)
Depreciation of property, plant and equipment	30	37
Profit on sale of property, plant and equipment	(5)	-
Impairment of property, plant and equipment	3	-
Amortisation of intangible assets	4	4
Share based payments	6	4
Decrease in inventories	6	5
Decrease / (increase) in receivables	7	(12)
Decrease in payables	(4)	(1)
Income taxes paid	(2)	(2)
Cash spend against provisions	(3)	(6)
Net cash inflow / (outflow) from operating activities before exceptional items	**90**	**(14)**
Cash outflow relating to exceptional operating items	(8)	(9)
Net cash inflow / (outflow) from operating activities	**82**	**(23)**

13. Share capital

a) Authorised

	2006		2005	
	Number of shares (millions)	**Nominal value £m**	**Number of shares (millions)**	**Nominal value £m**
Equity:				
Ordinary shares of £1.00 each	-	-	-	-
Ordinary shares of £1.95 each	300	585	-	-
Redeemable preference share of £50,000 each	-	-	-	-
Total	**300**	**585**	**-**	**-**

b) Allotted and fully paid

	2006		2005	
	Number of shares (millions)	**Nominal value £m**	**Number of shares (millions)**	**Nominal value £m**
Equity:				
Ordinary shares of £1.00 each	-	-	-	-
Ordinary shares of £1.95 each	183	357	-	-
Redeemable preference share of £50,000 each	-	-	-	-
Total	**183**	**357**	**-**	**-**

At 31 August 2005, the authorised share capital of the company was £1,000 divided into one thousand ordinary shares of £1.00 each with one share allotted and fully paid up.

On 23 June 2006, the authorised share capital was increased by the creation of one redeemable preference share of £50,000 which was issued as fully paid up. In accordance with IAS 32 'Financial instruments: disclosure and presentation', this amount is presented within liabilities. On the same day the company issued a second ordinary share which was fully paid.

On 6 July 2006, the authorised share capital was increased by £584,999,000 through the creation of a further 584,999,000 ordinary shares of £1.00 each. 76 ordinary shares were then issued fully-paid to the existing shareholders. The issued and unissued ordinary shares were then consolidated on a 39:1 basis into ordinary shares of £39 each which were then subdivided on a 1:20 basis into ordinary shares of £1.95 each. Following this consolidation and subdivision, the authorised share capital was £585,050,000 divided into 300,000,000 ordinary shares of £1.95 each and 1 redeemable preference share of £50,000, of which 40 ordinary shares and the redeemable preference share were issued and full paid-up.

On 31 August 2006, the Company issued 182,919,970 ordinary shares to the shareholders of Smiths News PLC in exchange for acquiring WH Smith Retail Holdings Limited (formerly WH Smith PLC) and its subsidiary entities.

On 7 September 2006, the company reduced its authorised share capital through the reduction of the nominal value of each ordinary share from £1.95 each to £0.20 each, creating £320 million of distributable reserves.

14. Related party transactions

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

Smiths News PLC

During the periods, Group companies entered into the following transactions with Smiths News PLC. On 31 August 2006, the Group was demerged from Smiths News PLC.

Purchases were made on an arm's length basis.

14. Related party transactions (continued)

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

£m	2006	2005
Purchase of goods from Smiths News PLC	115	113
Trading amounts owed to Smiths News PLC at end of year	6	10
Amounts owed by Smiths News PLC in respect of prior years' corporation tax	15	15

Prior to demerger on 31 August 2006, trading between the Retail and News businesses was not classified as a related party transaction as they were both part of the WH Smith Group.

Transitional services agreement on demerger

On 7 July 2006, WH Smith PLC and Smiths News PLC entered into a transitional services agreement whereby WH Smith PLC has agreed, with effect from the demerger, to supply certain transitional services to Smiths News PLC. These services include, amongst other things, payroll, tax, and property administration. It is expected that the services will be provided for a transitional period of up to 12 months plus such time as is required to complete the 2005/2006 year end tax computation, following which Smiths News PLC will make its own arrangements for the provision of these services. The consideration payable by Smiths News PLC to WH Smith PLC under this agreement from the 12 month period is likely to be approximately £800,000 although this could increase depending on the length of time that the services are provided to Smiths News PLC.

USA Travel Retail - Hotels

The CEO of Travel Traders LLC is Sean Anderson who was Chairman of WH Smith Airports Inc., WH Smith PLC's US subsidiary until September 2003 and he holds a 30 per cent stake in Travel Traders LLC. The total consideration of £7 million for the USA Travel Retail hotel business was satisfied by way of an interest bearing loan note with a 5 per cent coupon, conditional on the trading cash flows of Travel Traders LLC. Additionally, WH Smith Group Holdings (USA) Inc. holds a 15 per cent equity interest in Travel Traders LLC is also providing a loan facility of up to £4 million to the new company, of which £3 million is drawn down as at 31 August 2006, (31 August 2005: £3 million).

Remuneration of key management personnel

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

£000	2006	2005
Short-term employee benefits	2,407	3,048
Post-employment benefits	39	38
	2,446	**3,086**

Directors' transactions

There are no other transactions with directors.

15. Post Balance Sheet Events

On 1 September 2006, the Group made a £25 million one -off contribution to the WH Smith Pension Trust.

On 7 September 2006, the company reduced its authorised share capital through the reduction of the nominal value of each ordinary share from £1.95 each to £0.20 each, creating £320 million of distributable reserves.

16. Analysis of Retail Stores and Selling Space

Number of stores

	1 September 2005	Opened	Closed	31 August 2006
High Street	542	7	(6)	543
Travel	127	2	-	129
Total	**669**	**9**	**(6)**	**672**

Retail selling square feet (000's)

	1 September 2005	Opened	Closed	Redeveloped	31 August 2006
High Street	3,035	21	(38)	(19)	2,999
Travel	216	1	-	3	220
Total	**3,251**	**22**	**(38)**	**(16)**	**3,219**

17. Preparation of the Preliminary Announcement

a) Basis of preparation

The preliminary announcement for the 12 months to 31 August 2006 has been prepared on the basis of the accounting policies set out in the New WH Smith PLC prospectus issued on 7 July 2006.

While the financial information included in this preliminary announcement has been computed in accordance with International Financial Reporting Standards (IFRS), this announcement does not itself contain sufficient information to comply with IFRS. The Company expects to publish full financial statements that comply with IFRSs in November 2006.

b) Preliminary announcement

The financial information for the 12 months to 31 August 2006 and 12 months to 31 August 2005 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 2006. The statutory accounts for WH Smith PLC (formerly New WH Smith PLC; formerly Pollquote Limited) for the period from incorporation on 10 August 2004 to 31 August 2005 have been filed with the Registrar of Companies and those for the 12 months to 31 August 2006 will be filed following the Company's annual general meeting. The accounts for the period ending 31 August 2005 did not require to be audited. The auditors' reports on the accounts for the 12 months to 31 August 2006 were unqualified and did not include a statement under Section 237 (2) or (3) of the Companies Act 1985.

The Annual Report and Accounts will be posted to shareholders in November 2006.