11 October 2007

WH SMITH PLC
PRELIMINARY RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 AUGUST 2007

Strong profit performance from the Group

KEY POINTS

- Profit before tax and exceptional items up 29% to £66m (2006: £51m). Profits from trading operations are:
    - High Street profit up 5% to £44m[1] (2006: £42m)
    - Travel profit up 16% to £36m[1] (2006: £31m)

- Total Group profit before tax of £76m (2006: £44m).

- Like-for-like (LFL) sales down 4% reflecting our strategy to rebalance the mix of our High Street business towards our core categories.
    - High Street LFL sales down 6%, with total sales down 6%
    - Travel LFL sales up 2%, with total sales up 6%

- Gross margin has improved by 230 basis points year on year.

- Cost savings of £10m, with £3m delivered ahead of plan; further incremental cost savings of £11m identified.

- Strong free cash flow of £81m (2006: £68m).

- Underlying earnings per share[2] up 26% to 29.3p (2006: 23.3p).

- Basic earnings per share up 82% to 33.1p (2006: 18.2p)[3].

- Final dividend proposed of 8.1p, up 31% on the prior year. Total dividend per share of 11.8p up 27% on prior year[4].

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

"We have delivered another year of strong profit performance, with Group profits[5] up 29% and strong free cash flow of £81m. Our Travel business grew strongly, and our High Street business made further progress in line with its plan. In an uncertain consumer environment, we expect the key Christmas season to be very competitive, however 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] Based on profit after tax and before exceptional items - diluted
[3] EPS as per IAS 33 – diluted. Includes non cash exceptional gain of £10m in the current year and net exceptional charge of £7m in the prior year
[4] Prior year figure is proforma based on two thirds / one third split of year end and interim dividend per WH Smith PLC Circular dated 7 July 2006
[5] Profit before tax and exceptional items

- Ends -

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GROUP INCOME STATEMENT

Revenue

Group revenue decreased from £1,340m to £1,299m over the year, as we focused on profitable sales, in a tough trading environment. The LFL sales decline over the period was 4%.

£m	2007	2006	*Growth %*	*LFL Sales Growth %*
High Street	**961**	1,021	*(6%)*	*(6%)*
Travel	**338**	319	*6%*	*2%*
Total	**1,299**	1,340	*(3%)*	*(4%)*

High Street sales were down 6% and on a LFL basis down 6%, reflecting our strategy to rebalance the mix of our business. Travel sales growth of 2% on a LFL basis has been driven by the airports business, up 5% on a LFL basis delivered through improved ranges, effective promotions and successfully rebalancing sales from landside to airside. Total sales in Travel were up 6% driven by new business development gains and our expansion into the motorway service area market, both reflecting our strategy to grow the Travel business.

Books LFL sales were up 1% as we continued to focus on rebuilding our authority as a popular book specialist and maximising profitability. Excluding the Harry Potter release in the second half, LFL sales for the year were flat, with gross margin slightly down including Harry Potter and up excluding Harry Potter. We maintained our strong performance versus the general high street, a trend which has continued for over 2 years now. We are particularly pleased to have maintained this performance during the second half of the year in the face of very strong competition on Harry Potter. During the year, we saw strong shares in some of the front list books, both over the key Christmas period on titles like Peter Kay, The Sound of Laughter, and then with further strong shares on key summer titles such as Cook Yourself Thin and the Richard & Judy Summer Read. Improvements to category planning and management have delivered good results, notably through improved ranges, innovative promotions and a focus on specific genres, such as Kids.

Stationery LFL sales were down 3% reflecting the stationery market which has been soft throughout the year. Gross margin was up driven by intra category mix, sourcing benefits and better markdown management. In this broad and diverse category we are seeing some areas of strong growth while others are weaker. We continue to focus on improving our ranges through a programme of category reviews. During the year we have carried out successful reviews of categories such as Pens and PC consumables, delivering improved performance in terms of both sales and margin. In Travel, we have extended the premium fashion stationery ranges on offer, especially in our Rail stores, with positive customer feedback.

News and Impulse LFL sales were up 1% year on year with an improvement in gross margin.

The magazine market has been challenging during the year, especially partworks and monthlies. However, our share in news and magazines remained stable, supported by successful promotions with major newspapers. The introduction of an automated category management system has also allowed us to improve the way we tailor magazine ranges to the sales profile of specific stores. We have seen further strong growth in snacking and confectionery, driven by range reviews and strong promotions.

In Entertainment, we continued with our strategy to reduce steadily our reliance on entertainment and as we do this, we are optimising profitability. Entertainment LFL sales were down 32% in an extremely competitive market with continuing price deflation. During the second half of the year we made a number of improvements to our offer to maximise the sales from the space dedicated to this category; for example, improving our ranges to ensure that the most popular titles are available in all our stores. Stock continues to be tightly controlled to reflect sales patterns while maintaining availability levels in line with last year.

Profit before exceptional items and taxation

£m	**2007**	**2006**	***Profit Growth %***
High Street [1]	**44**	42	*5%*
Travel [1]	**36**	31	*16%*
Trading operations profit [1]	**80**	73	*10%*
Central costs	**(14)**	(14)	
Internal rents	**1**	1	
Operating profit [2]	**67**	60	*12%*
Net finance charges	**(1)**	(9)	
Profit before taxation [2]	**66**	51	*29%*

[1] Trading operations 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] Stated before exceptional items

The Group generated a profit before tax and exceptional items of £66m (2006: £51m), an increase of 29% year on year. Operating profit[2] increased by 12% from £60m to £67m as a result of strong improvements in trading operations.

High Street

High Street delivered a profit[1] increase of 5% to £44m (2006: £42m), in line with expectations, as we continued with our strategy to rebalance the mix of the business. Markets were as challenging as we expected in the first half, but we benefited in the second half from the publication of Harry Potter, the poor summer weather and the absence of a major sporting event following the 2006 World Cup. We continued to focus on rebuilding authority in our core categories, optimising margins, tight cost control and delivering the retail basics.

Gross margin improved, driven by rebalancing the mix of our business, sourcing benefits, better buying and improved markdown management.

High Street delivered £10m of cost savings during the period, £3m ahead of plan. Cost savings were delivered from a number of areas of the business, for example, further efficiencies in IT through outsourcing and renegotiated contracts, and better use of not-for-resale purchasing, resulting in savings on cleaning, energy and facilities management.

The High Street business now operates from 544 stores, which occupy 3.0m square feet (2006: 3.0m square feet). We opened 4 new stores and closed 3 stores during the period and continued to manage our store portfolio actively.

We announced plans to open 71 Post Office concessions in our High Street stores. The rollout is on schedule with 23 opened to date, a further 10 planned to open in 2007 and the remainder in 2008. Customer feedback has been good with improved environment and service levels highlighted. The integration of the Post Office within our stores is operationally complex but the execution is progressing to plan. A separate management team has been established within our High Street business to ensure that the Post Office rollout is as smooth as possible with minimal disruption to the operation of the store.

Travel

Travel delivered another good performance with profit[1] increasing by 16% to £36m (2006: £31m). This was achieved as a result of increased sales combined with improved gross margin and tight cost control.

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 improved average transaction value by focusing on mix changes and improved promotional activity.

The Travel business now operates from 309 units, including motorway service area franchise units. Excluding motorway service area franchise units, Travel occupies 0.2m square feet (2006: 0.2m square feet).

We have made good progress on new business development. We successfully renewed 20 contracts in airports and in rail. We also opened 18 new units: 15 in airports, 2 in rail and one in the Royal Cornwall Hospital. One unit closed in the year.

Since our announcement in November 2006 of plans to open stores in motorway service areas, we have made good progress to establish a strong presence in this new channel. We have completed a challenging rollout plan ahead of schedule and now have 50 Moto and 35 Welcome Break stores open. The stores are trading well and initial customer feedback is encouraging. We are working on other opportunities in this market, specifically leasehold opportunities, with other motorway service area operators. One of these stores, with Swayfield, has already opened at Cullompton.

[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

Central costs and internal rents

Central support costs were £14m, consistent with the prior year. Internal rents on freehold property owned by the Group remained at the prior year level of £1m.

Net finance charges

The results include finance costs net of investment income of £1m (2006: £9m). Higher investment income and lower finance charges (as a result of the Group no longer having a term loan facility) have led to the decrease in net finance charges. In addition, we received a one-off interest receipt of approximately £1.5m associated with a tax refund in the first half of the year.

Exceptional items

In the prior year a £12m exceptional charge was incurred in relation to costs associated with the demerger of Smiths News PLC and a £5m exceptional gain was also recognised as a result of the settlement of post retirement medical benefit liabilities. In the current year the Group has 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.

Taxation

The tax charge for the year, before tax on exceptional items, was £13m (2006: £10m). The effective tax rate on continuing activities excluding exceptional items was 20% (2006: 20%).

We expect the effective tax rate to remain below the UK standard rate over the medium term. The exact tax rate achieved will depend on the underlying profitability of the Group and continued progress in closing off outstanding tax assessments.

Earnings per share

The Group's underlying diluted earnings per share was 29.3p (2006: 23.3p) as a result of improved profitability. The Group generated basic diluted earnings per share of 33.1p (2006: 18.2p) reflecting a net exceptional charge of £7m in the prior year and the non cash exceptional gain of £10m recognised in the current year.

Fixed charges cover

Fixed charges, comprising property operating lease rentals and net finance charges, were covered 1.4 times (2006: 1.3 times) by fixed charges and profit before tax and exceptional items.

Management Investment Plan

In the current year, the Board intends to introduce a new management investment plan, which will cover the three financial years to 31 August 2010, and for which formal approval will be sought at the AGM on 31 January 2008. Further details on this will be included in the Annual Report and Accounts published in November 2007.

Dividends

The Board is proposing a final dividend of 8.1p per ordinary share, an increase of 31% on the prior year. This gives a total dividend for the year of 11.8p per ordinary share, up 27%. Subject to shareholder approval the dividend will be paid on 6 February 2008 to shareholders registered at the close of business on 11 January 2008. 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 strong operating free cash flow, which amounted to £81m compared with £68m in the previous year.

£m	2007	2006
Operating profit[1]	**67**	60
Depreciation, amortisation & amounts written off fixed assets	**41**	37
Working capital	**9**	9
Capital expenditure	**(32)**	(29)
Tax	**(8)**	(2)
Net interest received / (paid)	**2**	(5)
Net provisions	**(2)**	(3)
Other items	**4**	1
Free cash flow	**81**	68

[1] Stated before exceptional items

Cash generation has strengthened due to improved profitability and good working capital control.

Tax paid has increased year on year due to the utilisation of tax losses in the prior year and the growth in profit before tax in the current year.

Net interest received, which here does not include some £1.5m interest received in respect of a tax refund, has increased due to the strong cash position of the business and lower finance charges.

Other items relate to share-based payment charges of £6m (2006: £6m) and profits on disposal of fixed assets of £2m (2006: £5m). There have also been impairment charges of £3m (2006: £3m) in the year.

Capital expenditure

£m	2007	2006
New stores and store development	**12**	11
Refurbished stores	**7**	7
Systems	**9**	7
Other	**4**	4
Total	**32**	29

The Group has continued to invest in maintaining our retail properties with refurbishments being undertaken at units including Hammersmith, Victoria station and Gatwick North Terminal. During the year we have opened more units than in the prior year, including Travel units at Durham station and Heathrow Terminal 3, and High Street stores at Nantwich and Newmarket. We have also completed our investment in new units at Heathrow Terminal 5 with trading commencing in Spring 2008. Capital expenditure in relation to IT systems in 2007 included the significant rollout of new EPOS equipment to all our units in Travel and the merging of the High Street and Travel operations' financial systems.

Net Funds

The movement in the net funds position is as follows:

	£m
Opening net funds	**42**
Free cash flow	81
Pension deficit funding	(35)
Equity dividends paid	(17)
Tax refund and associated interest received	14
Net purchase of own shares	(12)
Corporate advisory costs	(6)
Sale & leaseback and fixed asset disposal proceeds	2
Other items	(5)
Closing net funds	**64**

During the year, the Group contributed £35m to the WHSmith Pension Trust. This comprised the one off payment of £25m on 1 September 2006 as part of the demerger from Smiths News PLC and £10m as part of our agreed annual deficit funding.

The Group received a tax refund and associated interest of £14m. The bulk of these proceeds has been used to purchase shares to satisfy the Group's share-based employee benefit obligations.

Corporate advisory costs of £6m relate to fees paid in relation to the prior year demerger from Smiths News PLC.

GROUP BALANCE SHEET

	£m	£m
Goodwill and other intangible assets	35	
Property plant and equipment	176	
		211
Available for sale investments		4
Inventories	141	
Payables less receivables	(161)	
Working capital		(20)
Net deferred tax asset		3
Current tax liability		(25)
Provisions		(10)
Operating assets employed		**163**
Net funds		64
Net assets excluding pension liability		**227**
Pension liability		-
Total net assets		**227**

The movement of net assets over the year is as follows:

	£m	£m
Opening net assets		**168**
Profit before tax and exceptional items	66	
Tax on above	(13)	
		53
Employee share schemes and share-based payments		(2)
Dividends paid		(17)
Tax effected movement in pension scheme deficit		15
Available for sale investments		3
Net assets before exceptional items		**220**
Exceptional items (net of associated tax)		7
Closing net assets		**227**

The Group's net assets have increased from £168m at the end of 2006 to £227m this year.

Return on Capital Employed

Total capital employed and ROCE were as follows:

	Operating Capital Employed £m	**ROCE %**	**ROCE% with operating leases capitalised**
High Street	160	28%	13%
Travel	33	109%	24%
Retail	**193**	**41%**	**16%**
Central items and property	(30)		
Operating assets employed	**163**	**41%**	**15%**

For the prior year, comparable average returns were 35 per cent (17 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 from £152m at 31 August 2003 to £nil at 31 August 2007. The LDI structure we put in place two years ago is performing well.

During the year, the Group has made significant contributions to the WHSmith Pension Trust. At demerger from Smiths News PLC, the Group made a one off contribution of £25m. In addition, £10m of agreed annual deficit funding was contributed and will continue for the next four years as agreed with the WHSmith Pension Trust Trustees.

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 has been reflected in the non cash curtailment gain of £10m.

On an ongoing funding basis the gross actuarial defined benefit pension deficit for WH Smith PLC was approximately £46m (approximately £33m net of related deferred taxes) at 31 August 2007 (2006: £116m and £84m net of related deferred taxes). The actuarial deficit is greater than the IAS 19 deficit primarily due to the different assumptions and calculation methodologies.

The results include net finance costs in respect of pensions of £2m (2006: £3m).

Financing and capital structure

The Group is financed through a mixture of equity and debt, comprising overdrafts and credit facilities, finance leases and loan notes. After our key Christmas trading period, the Board will review the Company's capital resources, having regard to current and potential future uses of our cash.

On 7 September 2006, a capital reduction was undertaken with the nominal value of ordinary shares reduced from 195p to 20p each, which created £320m of distributable reserves. On 15 December 2006, the Company redeemed the one redeemable preference share of £50,000 in issue.

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 £141m (net of £7m of external rent receivable). The total future rental commitment at the balance sheet date amounted to £883m with the leases having an average life of six years. The net present value of these commitments is approximately £613m. 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 £76m (2006: £102m).

CURRENT TRADING

As announced on 7 September 2007, the Company will be issuing its first Interim Management Report on 15 November 2007, which will cover the trading period from 1 September 2007 to 10 November 2007.

WH Smith PLC

Group Income Statement
For the year ended 31 August 2007

£m	Note	2007 Before exceptional items	2007 Exceptional items	2007 Total	2006 Before exceptional items	2006 Exceptional items	2006 Total
Continuing operations							
Revenue	1	1,299	-	1,299	1,340	-	1,340
Operating profit	1,2,3	**67**	**10**	**77**	**60**	**(7)**	**53**
Investment income	5	5	-	5	2	-	2
Finance costs	6	(6)	-	(6)	(11)	-	(11)
Profit before tax		**66**	**10**	**76**	**51**	**(7)**	**44**
Income tax expense	7	(13)	(3)	(16)	(10)	(2)	(12)
Profit after tax from continuing operations		**53**	**7**	**60**	**41**	**(9)**	**32**
Profit for the year		**53**	**7**	**60**	**41**	**(9)**	**32**

	Note	2007	2006
Earnings per share[1]			
Basic	9	34.3p	18.6p
Diluted	9	33.1p	18.2p
Non GAAP measures			
Underlying earnings per share[2]			
Basic	9	30.3p	23.8p
Diluted	9	29.3p	23.3p
Equity dividends per share[3]		11.8p	9.3p
Fixed charges cover		1.4x	1.3x

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 8.1p (2006: 6.2p) and the interim dividend of 3.7p (2006: proforma 3.1p). The prior year figure is based on two thirds / one third split of year end and interim dividend per WH Smith PLC Circular dated 7 July 2006

WH Smith PLC

Group Balance Sheet
As at 31 August 2007

£m	Note	2007	2006
Non-current assets			
Goodwill		15	15
Other intangible assets		20	20
Property, plant and equipment		176	184
Deferred tax assets		15	29
Trade and other receivables		5	-
		231	**248**
Current assets			
Inventories		141	143
Trade and other receivables		59	69
Available for sale investments		4	-
Cash and cash equivalents	10	82	66
		286	**278**
Total assets		**517**	**526**
Current liabilities			
Trade and other payables		(217)	(214)
Current tax liabilities		(25)	(20)
Obligations under finance leases	10	(3)	(3)
Bank overdrafts and other borrowings	10	(9)	(13)
Short-term provisions		(6)	(4)
Derivative financial liabilities		(1)	(1)
		(261)	**(255)**
Non-current liabilities			
Retirement benefit obligation	4	-	(66)
Deferred tax liabilities		(12)	(13)
Long-term provisions		(4)	(8)
Obligations under finance leases	10	(6)	(8)
Other non-current liabilities		(7)	(8)
		(29)	**(103)**
Total liabilities		**(290)**	**(358)**
Total net assets		**227**	**168**
Total equity		**227**	**168**

WH Smith PLC

Group Balance Sheet
As at 31 August 2007 (continued)

£m	Note	2007	2006
Shareholders' equity			
Called up share capital		37	357
ESOP reserve		(29)	(22)
Revaluation reserve		4	3
Hedging reserve		(1)	(2)
Translation reserve		(2)	(2)
Retained earnings		383	-
Other reserve		(165)	(166)
Total equity		**227**	**168**

WH Smith PLC

Group Cash Flow Statement

For the year ended 31 August 2007

£m	Note	2007	2006
Net cash inflow from operating activities	11	**83**	**82**
Investing activities			
Interest received		5	2
Proceeds on disposal of property, plant and equipment		2	9
Proceeds on settlement of loan notes		-	11
Non-operating disposal costs		(3)	(3)
Purchase of property, plant and equipment		(26)	(24)
Purchase of intangible assets		(6)	(5)
Net cash (outflow) from investing activities		**(28)**	**(10)**
Financing activities			
Interest paid		(2)	(7)
Dividend paid		(17)	(15)
(Purchase) / issue of shares for employee share schemes		(12)	4
Repayments of borrowings		(4)	(76)
Repayments of obligations under finance leases		(3)	(4)
Derivative cash movements		(1)	(1)
Repurchase of ‘C’ shares equity portion		-	(3)
Movement in funding balances with Smiths News PLC		-	57
Net cash used in financing activities		**(39)**	**(45)**
Net increase in cash and cash equivalents – continuing operations		19	19
Net (decrease) / increase in cash and cash equivalents – discontinued operations		(3)	8
Net increase in cash and cash equivalents in year		**16**	**27**
Opening net cash and cash equivalents		66	39
Closing net cash and cash equivalents		**82**	**66**

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

£m	Note	2007	2006
Net funds / (debt) at beginning of the year		**42**	**(58)**
IAS 39 – ‘B’ and ‘C’ shares classified as financial liabilities		-	(7)
Increase in cash and cash equivalents		16	27
Decrease in debt		4	76
Net movement in finance leases		2	4
Net funds at end of the year	10	**64**	**42**

WH Smith PLC

Group Statement of Recognised Income and Expense

For the year ended 31 August 2007

£m	2007	2006
Actuarial gains / (losses) on defined pension schemes (Note 4)	23	(24)
UK deferred tax attributable to pension scheme liabilities	(13)	5
UK current tax attributable to the additional pension scheme contributions	5	3
Exchange differences arising on translation of foreign operations	-	(2)
Loss on cash flow hedges	-	(2)
Net income / (expense) recognised directly in equity	**15**	**(20)**
Profit for the year	**60**	**32**
Total recognised income and expense for the year	**75**	**12**

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 2007

£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 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 year	-	-	(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 1 September 2006	**357**	**-**	**(4)**	**3**	**(22)**	**(166)**	**-**	**168**
Total recognised income and expense for the period	-	-	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 31 August 2007	**37**	**-**	**(3)**	**4**	**(29)**	**(165)**	**383**	**227**

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. This has been disclosed within discontinued operations.

i) Segmental analysis by business segments

a) Group revenue

£m	2007	2006
Continuing operations:		
High Street	961	1,021
Travel	338	319
Group revenue	**1,299**	**1,340**

b) Group results

£m	2007	2006
Continuing operations:		
High Street	44	42
Travel	36	31
Trading profit	**80**	**73**
Unallocated costs	(13)	(13)
Group operating profit before exceptional items	**67**	**60**
Exceptional items (Note 3)	10	(7)
Group operating profit	**77**	**53**
Investment income	5	2
Finance costs	(6)	(11)
Income tax expense	(16)	(12)
Profit for the year	**60**	**32**

WH Smith PLC
Notes to Accounts (continued)

1. Segmental analysis of results (continued)

i) Segmental analysis by business segments (continued)

c) Balance Sheet

£m	2007 High Street	2007 Travel	2007 Continuing operations	2007 Discontinued operations	2007 Group	2006 High Street	2006 Travel	2006 Continuing operations	2006 Discontinued operations	2006 Group
Assets										
Segment assets	344	75	419	-	**419**	359	55	414	-	**414**
Unallocated assets	-	-	98	-	**98**	-	-	112	-	**112**
Consolidated total assets	**344**	**75**	**517**	**-**	**517**	**359**	**55**	**526**	**-**	**526**
Liabilities										
Segment liabilities	(186)	(43)	(229)	(5)	**(234)**	(183)	(35)	(218)	(6)	**(224)**
Unallocated liabilities	-	-	(56)	-	**(56)**	-	-	(134)	-	**(134)**
Consolidated total liabilities	**(186)**	**(43)**	**(285)**	**(5)**	**(290)**	**(183)**	**(35)**	**(352)**	**(6)**	**(358)**
Net Assets			**232**	**(5)**	**227**			**174**	**(6)**	**168**

d) Other Segmental Items

£m	2007 High Street	2007 Travel	2007 Continuing operations	2007 Discontinued operations	2007 Group	2006 High Street	2006 Travel	2006 Continuing operations	2006 Discontinued operations	2006 Group
Capital additions	22	11	33	-	**33**	24	5	29	-	**29**
Depreciation and amortisation of non -current assets	(33)	(5)	(38)	-	**(38)**	(29)	(5)	(34)	-	**(34)**
Impairment losses	(3)	-	(3)	-	**(3)**	(3)	-	(3)	-	**(3)**

Segment assets include intangible assets, property, plant and equipment, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities. The prior year comparatives for the segmental analysis have been amended as the directors' believe this gives a more appropriate analysis of business segments.

1. 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.

2. Group operating profit

£m	2007	2006
Turnover	**1,299**	**1,340**
Cost of sales	(708)	(761)
Gross profit	**591**	**579**
Distribution costs	(444)	(434)
Administrative expenses	(75)	(97)
Pre-exceptional operating items	*(85)*	*(90)*
Exceptional operating items [1]	*10*	*(7)*
Other income [2]	5	5
Group operating profit	**77**	**53**

[1] The exceptional operating items are detailed in Note 3.
[2] Other income is profit attributable to property and the sale of plant and equipment. During the period there was a £3m impairment charge for property, plant and equipment and other intangible assets included in distribution costs (2006:£3m).

2. Group operating profit (continued)

£m	2007	2006
Cost of inventories recognised as an expense	748	786
Write-down of inventories in the period	6	12
Depreciation and amounts written off property, plant and equipment	35	33
Amortisation and amounts written off intangible assets	6	4
Net operating lease charges		
- land and buildings	148	147
- equipment and vehicles	1	1
Other occupancy costs	53	50
Staff costs	180	192
Auditors' remuneration (see below)	-	2

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	0.1
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**	**0.2**
Non-audit fees including corporate finance and other services	0.1	1.9
	0.4	**2.1**

3. 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	2007	2006
Pension curtailment	10	-
Costs of demerger from Smiths News PLC	-	(12)
Settlement of Post Retirement Medical Benefit Scheme	-	5
	10	**(7)**

On 2 April 2007 the WHSmith Pension Trust was closed to service accrual. This has led to a non cash curtailment gain of £10m. Further details are included in Note 4.

The Group incurred a £12m exceptional charge in relation to costs associated with the demerger from Smiths News PLC in the prior year.

In September 2005, members of the Post Retirement Medical Benefit Scheme were offered the option to be bought out of the scheme, which was accepted by the majority of members. A gain of £5m (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 4.

4. 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 is WHSmith Pension Trust, which is described in Note 4 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 and was closed to defined benefit service accrual on 2 April 2007.

On the date of demerger, 31 August 2006, the assets and liabilities of the Pension Trust and the WH Smith Retirement Savings Plan were split between the Smiths News business and the Retail business by way of a 'sectionalisation'. Each section only contains the accounts of members who are or were employed by the relevant business. There is no cross-subsidies or cross-guarantees between the sections of the Pension Trust. The assets and liabilities of the defined benefit scheme were allocated to the Smiths News business section and the WHSmith Retail business section in proportions that reflected the related liabilities of active, deferred, pensioner and orphan members belonging to the respective Smiths News and Retail businesses.

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

£m	2007	2006
Present value of the obligations	(657)	(674)
Fair value of plan assets	657	608
Retirement benefit obligation recognised in the balance sheet	**-**	**(66)**
Deferred taxation	-	20
Net retirement obligation	**-**	**(46)**

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.

During the year, the Group made a one-off post demerger cash contribution of £25m and a further contribution of £10m in relation to the agreed pension deficit funding to 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 Limited, using the projected unit basis. On an ongoing funding basis the gross actuarial defined benefit pension deficit at 31 August 2007 for WH Smith PLC was approximately £46m (approximately £33m net of related deferred taxes) (2006: approximately £116m and £84m 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 were invested in an LDI policy with a leading international institutional fund manager; and
- 6% 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 £210m.

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.

WH Smith PLC
Notes to Accounts (continued)

4. Retirement benefit obligation (continued)

a) Defined benefit pension scheme

i) The WHSmith Pension Trust

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:

%	2007	2006
Rate of increase in salaries	4.24	4.00
Rate of increase in pension payments and deferred pensions	3.24	3.00
Discount rate	5.53	5.10
Inflation assumptions	3.24	3.00

The amounts recognised in the income statement were as follows:

£m	2007	2006
Current service cost	(4)	(6)
Curtailment gain	10	-
Interest cost	(34)	(32)
Expected return on scheme assets	32	29
	4	**(9)**

The charge for the current service cost and the 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 (Note 6). 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	2007	2006
At 1 September	(674)	(651)
Current service cost	(4)	(6)
Interest cost	(34)	(32)
Actuarial gains and losses	22	(7)
Curtailment gain	10	-
Benefits paid	23	22
As at 31 August	**(657)**	**(674)**

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

£m	2007	2006
At 1 September	608	598
Expected return on scheme assets	32	29
Actuarial gains and losses	1	(17)
Contributions from the sponsoring companies	39	20
Benefits paid	(23)	(22)
As at 31 August	**657**	**608**

4. 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	**2007**	**2006**
Cash	645	584
Inflation swaps	(29)	(14)
Equity call options	41	38
	657	**608**

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 2007 this was 5.01 per cent (2006: 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).

The mortality assumptions (in years) underlying the value of the accrued liabilities for both 2006 and 2007 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.

4. Retirement benefit obligation (continued)

a) Defined benefit pension scheme (continued)

i) The WHSmith Pension Trust (continued)

The five year history of experience adjustments is as follows:

£m	2007	2006	2005	2004	2003
Present value of defined benefit obligations	(657)	(674)	(651)	(612)	(585)
Fair value of scheme assets	657	608	598	473	441
Deficit in the scheme	**-**	**(66)**	**(53)**	**(139)**	**(144)**
Experience adjustments on scheme liabilities					
Amount (£m)	22	(7)	(75)		
Percentage of scheme liabilities (%)	(3)	1	11		
Experience adjustments on scheme assets					
Amounts (£m)	1	(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 £0.1m (31 August 2006: £0.1m). 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 £5m 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 £0.1m 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 £2m for the year ended 31 August 2007 (31 August 2006: £2m).

5. Investment income

£m	2007	2006
Interest on bank deposits	4	2
Interest from prior period tax overpayments	1	-
	5	**2**

WH Smith PLC
Notes to Accounts (continued)

6. Finance costs

£m	2007	2006
Interest payable on bank loans and overdrafts	1	6
Net charge on pension schemes (Note 4)	2	3
Unwinding of discount on provisions	1	1
Interest on obligations under finance leases	1	1
Loss on cash flow hedges	1	-
	6	**11**

7. Income tax expense

£m	2007	2006
Tax on profit before exceptional items	23	4
Standard rate of UK corporation tax 30%		
Adjustment in respect of prior year UK corporation tax	(8)	(7)
Total current tax charge before exceptional items	**15**	**(3)**
Deferred tax – current year	(2)	13
Tax on profit before exceptional items	**13**	**10**
Tax on exceptional items	3	2
Tax on profit after exceptional items	**16**	**12**
Effective tax rate on continuing activities before exceptional items	*20%*	*20%*

Reconciliation of the taxation charge

£m	2007	2006
Tax on profit before exceptional items at standard rate of UK corporation tax 30%	20	15
Tax effect of items that are not deductible or not taxable in determining taxable profit	1	2
Deferred tax charge in relation to retirement benefit obligation adjustments	3	2
Adjustment in respect of prior years	(8)	(7)
Tax charge after exceptional items	**16**	**12**

8. Dividends

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

£m	2007	2006
Dividends		
Interim – paid	6	5
Final - paid	11	10
	17	**15**

The proposed dividend of 8.1p per share is not included as a liability in these financial statements and, subject to shareholder approval, will be paid on 6 February 2008 to shareholders on the register at the close of business on 11 January 2008.

9. Earnings per share

These are derived from continuing operations.

a) Earnings

£m	2007	2006
Underlying earnings attributable to shareholders	53	41
Exceptional items net of related taxation	7	(9)
Profit attributable to shareholders	**60**	**32**

b) Basic earnings per share

Pence	2007	2006
Underlying earnings per share (note i)	30.3	23.8
Exceptional items net of related taxation	4.0	(5.2)
Earnings per share (note ii)	**34.3**	**18.6**

i) Underlying earnings per share has 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	2007	2006
Underlying earnings per share	29.3	23.3
Exceptional items net of related taxation	3.8	(5.1)
Earnings per share	**33.1**	**18.2**

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	2007	2006
Weighted average shares in issue for earnings per share	175	172
Add weighted average number of ordinary shares under option	6	4
Weighted average ordinary shares for diluted earnings per share	**181**	**176**

10. Analysis of net funds / (debt)

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

£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**

£m	2005	IAS 32 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 funds / (debt)	**(58)**	**(7)**	**107**	**-**	**42**

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 2007 floating rate debt comprises £9m of unsecured loan notes (redeemable at par on demand up until expiry on 28 February 2008) bearing interest at a rate of 100 basis points below six month LIBOR (2006: £13m).

Borrowing facilities
At 31 August 2007, the Group had a five-year committed revolving credit facility of £90m, which is due to mature on 26 June 2011. This facility was not drawn as at the balance sheet date.

11. Net cash inflow from operating activities

£m	2007	2006
Operating profit from continuing operations	**77**	**53**
Operating exceptional items	(10)	7
Adjustment for pension funding	(35)	(12)
Depreciation of property, plant and equipment	33	30
Profit on sale of property, plant and equipment	(2)	(5)
Impairment of property, plant and equipment	2	3
Amortisation of intangible assets	5	4
Impairment of intangible assets	1	-
Share-based payments	6	6
Decrease in inventories	2	6
(Increase) / decrease in receivables	(6)	7
Increase / (decrease) in payables	13	(4)
Income taxes received / (paid)	5	(2)
Cash spend against provisions	(2)	(3)
Net cash inflow from operating activities before exceptional items	**89**	**90**
Cash outflow relating to exceptional operating items	(6)	(8)
Net cash from operating activities	**83**	**82**

12. Analysis of Retail Stores and Selling Space

Number of stores

	1 September 2006	Opened	Closed	31 August 2007
High Street	543	4	(3)	544
Travel	129	7	(1)	135
Total	**672**	**11**	**(4)**	**679**

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 2006	Opened	Closed	31 August 2007
Travel	205	19	(1)	223
Motorway franchise units	-	86	-	86
Total	**205**	**105**	**(1)**	**309**

Retail selling square feet (000's)

	1 September 2006	Opened	Closed	Redeveloped	31 August 2007
High Street	2,999	11	(9)	(4)	2,997
Travel	220	18	(1)	2	239
Total	**3,219**	**29**	**(10)**	**(2)**	**3,236**

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

13. Preparation of the Preliminary Announcement

a) Basis of preparation

The preliminary announcement for the 12 months to 31 August 2007 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 2006.

b) Preliminary announcement

The financial information for the 12 months to 31 August 2007 and 12 months to 31 August 2006 does not comprise statutory accounts for the purpose of Section 240 of the Companies Act 1985 and has been extracted from the Company's consolidated accounts for the year to 31 August 2007. The statutory accounts for WH Smith PLC for the 12 months to 31 August 2006 have been filed with the Registrar of Companies and those for the 12 months to 31 August 2007 will be filed following the Company's annual general meeting. The auditors' reports on the accounts for the 12 months to 31 August 2007 were unqualified and did not include a statement under Section 237 (2) or (3) of the Companies Act 1985.

Whilst the financial 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 Company intends to publish full financial statements that comply with IFRSs. The Annual Report and Accounts or Annual Review and Summary Financial Statement will be posted to shareholders in November 2007.