WH Smith PLC
Preliminary Results 2007

11 October 2007

WH Smith PLC

▪ Introduction	Robert Walker
▪ Financial review	Alan Stewart
▪ Operational review	Kate Swann

- High Street
- Travel

Alan Stewart

Group Finance Director

Group financial summary

	Year to Aug 2007 £m	Year to Aug 2006 £m	Change %
Revenue	1,299	1,340	(3%)
Profit before tax and exceptional items[1]	66	51	29%
Profit before tax	76	44	73%
Underlying EPS[2]	29.3p	23.3p	26%
Basic EPS[3]	33.1p	18.2p	82%
Final dividend per share	8.1p	6.2p	31%
Total dividend per share[4]	11.8p	9.3p	27%

[1] Exceptional items : 2007 - £10m pension curtailment gain; 2006 - £12m demerger costs offset by £5m post retirement medical liability settlement
[2] Underlying EPS : profit before exceptional items – diluted (weighted average number of shares 2007:181m; 2006: 176m)
[3] EPS as per IAS 33 - diluted
[4] Prior year figure is proforma based on two thirds / one third split of year end and interim dividend per the WH Smith PLC Circular dated 7 July 2006

Group profit before tax

	Year to Aug 2007 £m	Year to Aug 2006 £m	Growth %
High Street [1]	44	42	5%
Travel [1]	36	31	16%
Trading operations	**80**	**73**	**10%**
Central costs	(14)	(14)	
Internal rents	1	1	
Operating profit[2]	**67**	**60**	**12%**
Net finance income	1	(6)	
Pension interest	(2)	(3)	
Profit before tax[2]	**66**	**51**	**29%**

[1] Stated after directly attributable share based payment and pension service charges
[2] Before exceptional items

Profit from trading operations

	Year to Aug 2007 £m	Year to Aug 2006 £m	Change %
Revenue	**1,299**	**1,340**	**(3%)**
Gross contribution	**591**	**579**	**2%**
Costs	**(511)**	**(506)**	**(1%)**
Costs – occupation costs	(196)	(187)	
– store costs	(194)	(193)	
– other costs	(121)	(126)	
Profit from trading operations[1]	**80**	**73**	**10%**
Gross margin	45.5%	43.2%	230bps
Total square feet ‘000	3,236	3,219	

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

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Revenue analysis

Revenue	Year to Aug 2007 £m	Year to Aug 2006 £m	LFL Change %
High Street	961	1,021	(6%)
Travel	338	319	2%
Total revenue	**1,299**	**1,340**	**(4%)**

LFL sales by category	H1	H2	Year to Aug 2007 %
Books	-	3%	1%
Stationery	(4%)	(1%)	(3%)
News & Impulse	1%	-	1%
Entertainment	(36%)	(23%)	(32%)
Total	**(6%)**	**(1%)**	**(4%)**

Group free cash flow

	Year to Aug 2007 £m	Year to Aug 2006 £m
Operating profit[1]	**67**	**60**
Depreciation and amortisation	41	37
Working capital	9	9
Capital expenditure	(32)	(29)
Tax	(8)	(2)
Provisions	(2)	(3)
Net interest earned / (paid)	2	(5)
Other items	4	1
Free cash flow	**81**	**68**

[1] Stated before exceptional items

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Group net debt movement

	Year to Aug 2007 £m	Year to Aug 2006 £m
Free cash flow	**81**	**68**
Dividends paid	(17)	(15)
Pension deficit and retirement benefit funding	(35)	(12)
Tax refund and associated interest received	14	-
Purchase and issue of own shares	(12)	(6)
Sale and leaseback and fixed asset proceeds	2	9
Corporate advisory and financing costs	(6)	(6)
Other items	(4)	5
Net finance leases	(1)	-
Intercompany settlement on demerger	-	57
Net debt movement	**22**	**100**
Closing net funds	**64**	**42**

Group balance sheet

	2007 £m	2006 £m
Goodwill & other intangible assets	35	35
Property, plant & equipment	176	184
Available for sale investments	4	-
Working capital	(20)	(11)
Corporation tax	(25)	(20)
Deferred tax	3	16
Provisions	(10)	(12)
Operating assets employed	**163**	**192**
Net funds	64	42
Total net assets (excluding pensions)	**227**	**234**
Pension deficit	-	(66)
Total net assets	**227**	**168**

Pensions

- We have reduced the pension deficit significantly since 2003

	2003	2004	2005	2006	2007
Gross IAS 19 pension deficit	£152m	£146m	£60m	£41m[1]	£nil
Actuarial pension deficit (est.)	£178m	£203m	£120m	£91m[1]	£46m

- £25m one off post demerger cash contribution
- Pension scheme closed to defined benefit Service Accrual with effect from 2 April 2007
  - Employee benefits already accrued not affected
  - Employees eligible to join money purchase scheme in line with existing scheme
- Actuarial impact of curtailment is a non cash exceptional gain of £10m
- Previously agreed deficit funding of £10m per annum made in year and continues for next 4 years

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

Group key indicators

	Year to Aug 2007 £m	Year to Aug 2006 £m	Growth %
Underlying EPS [1]	29.3p	23.3p	26%
Final dividend per share	8.1p	6.2p	31%
Total dividend per share[2]	11.8p	9.3p	27%
Free cash flow (£m)	81	68	
Fixed charges cover	1.4x	1.3x	
ROCE	41%	35%	

[1] Underlying EPS: profit before exceptional items – diluted
[2] Prior year figure is proforma based on two thirds / one third split of year end and interim dividend per the WH Smith PLC Circular dated 7 July 2006

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Kate Swann

Group Chief Executive

Group – Overview

- Strong performance across the Group
- Both halves now profitable
- Continued progress in delivery of High Street plan
- Further good performance from Travel
- Strong cash generation in both High Street and Travel
- Good progress with implementation of strategy
    - more still to do

High Street – Overview

- Continued delivery of strategy to rebalance the mix of our business
  - Second half performance
  - Further rebalancing planned
- LFL sales down 6%
- Strong gross margin performance up by c. 280 bps
- Cost saving target successfully delivered
  - Further savings identified
- Post Office roll-out underway
- Continued good cash generation

High Street strategy

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

Books

- Strategy to rebuild our authority remains unchanged
- Further improvement in performance vs general high street
- Strong, profitable sales on Harry Potter
- Further progress in category planning and management
  - Promotional architecture
  - Range management
- Continued investment in operational delivery
  - Greater promotional flexibility
  - In-store compliance and service

Books

Stationery

- LFL sales down 3%; gross margin well up YoY
- Continue to focus on core sub categories
- Improving ranges through category reviews
  - Recent work delivering improved category performance
  - Review process continues to be key part of strategy going forward
- Improved performance during Back to School
- Operational standards continue as a key focus
  - Improved stationery availability
  - In-store scanning technology

Stationery


£8.74
£34.99
UP TO
75%
OFF
WHSmith


£37.49
£74.99
Canon
UP TO
75%
OFF
WHSmith

News & Impulse

- Continued tough trading in magazine market
- Maintained market share in news and magazines
- Growth in snacking and confectionery
  - Strong promotional activity
  - Range developments
- Gross margin up YoY and supply chain efficiencies delivered
- Magazine category management now rolled out to all stores and delivering results

Entertainment

- Market continues to be extremely competitive; further aggressive trading expected as we go into Christmas period
- LFL sales down, reflecting market weakness and our continuing strategy to reduce reliance on entertainment and focus on profitable sales
- Range reviews and improved signage introduced to maximise sales from reduced Entertainment offer

Post Office

- Integration of Post Offices into High Street stores on track
  - Public consultation process close to completion for all Post Offices
  - 23 Post Offices now open
- Early customer feedback encouraging
- Operationally complex but execution progressing to plan
  - Separate Post Office management team ensures smooth integration and minimum disruption to High Street trading
- Opportunity to further rebalance product mix
- Further opportunities to be explored
  - Ability to pay for WHSmith product at Post Office counter

Post Office - Openings

Margin optimisation programme

- Margin growth from category mix management
- Additional margin growth from:
  - Improved promotions management
  - Better buying terms
  - Improved sourcing
  - Improved mark-down management
  - Shrinkage control
- Mix improvement continues to be a key driver of profit growth

Cost efficiency improvements

- Continued successful and focused cost control
- In October 2006, targeted £22m savings over 3 years; £7m in 2007
- Delivered savings of £10m in 2007; £3m ahead of schedule

	2007 Actual	2008 Forecast	2009 Forecast	2010 Forecast	**Total £ m**
October 2006	**7**	9	6	-	**22**
Projection at Interims	**10**	6	6	-	**22**
Actual/forecast	**10**	6	6	-	**22**
Further savings identified	**-**	2	3	6	**11**
Total savings	**10**	8	9	6	**33**

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Christmas 2007

- Uncertain consumer environment
- Expect very competitive Christmas
- Continue to focus only on profitable activity
- Continued active management of entertainment category and mix
- Christmas range focused on core categories; value and choice improved
- Further improvement to catalogue and web-based channels

Travel – Overview

- Further good performance, profit up 16% to £36m
- Total sales growth of 6%
- LFL sales growth of 2%
- Gross margin up driven by category mix management
- Costs continue to be tightly controlled
- Good progress with contract renewals
- 18 new units opened
- Motorway expansion ahead of plan with 87 units now open

Travel strategy

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

Travel – Airport stores

- LFL sales growth of 5%
- Continued progress with rebalance of sales from landside to airside
  - Improved fixtures with more density
  - Upgraded queue fixtures
- Product ranges improved, extended and tailored to location and destination
  - New ranges specifically for airside or landside stores
  - Tailored ranges for specific airports
- Further improvements in customer service

Travel – Rail stores

- LFL rail sales flat with tough trading in H2
- London LFL sales down 2%
- Regional rail LFL sales up 1%
- Improved display and promotions in core categories
- EPOS rollout complete
  - Faster transaction times
  - Improved customer offer (e.g. e-giftcard, e-top up)

Travel – Motorway stores

- Rapid rollout programme has established a strong presence in this new channel
  - Moto and Welcome Break rollouts completed with 50 Moto stores and 35 Welcome Break stores now open
  - Stores trading well
  - Positive customer feedback
- Key strengths of WHSmith Travel offer introduced
  - Clear layout, improved queuing systems
  - Doubled size of key product ranges and added new ranges
- Development of leasehold opportunities with other motorway service area operators
  - One CTN opened during the year
  - Four CTNs planned for 2008/09

Travel – Motorway stores

Travel – Contracts

- Good progress renewing contracts
- 20 contracts renewed
  - 8 in Air
  - 11 in Rail
  - Manchester Royal Infirmary
- 18 new units opened in addition to MSAs
  - 15 in Air
  - 2 in Rail
  - Royal Cornwall Hospital
- 16 new business wins and units due to open in 07/08
  - 11 in Air
  - 5 in Rail

Summary

- Further profit progress from the Group
- Continued improvement in High Street
- Strong performance from Travel
- Strong cash generation supporting dividend growth
- Consumer outlook uncertain going forward
- Tough trading conditions expected for Christmas 2007, however we have planned accordingly
- Plan to deliver value to shareholders is on track

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