12 April 2006

WH SMITH PLC
INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 28 FEBRUARY 2006

Good profit performance across all divisions

KEY POINTS

- Profit before tax and exceptional items up 4% to £71m (2005: £68m)[(1).] Divisional profits are:

  - Travel Retail up 18% to £13m
  - High Street Retail up 6% to £57m
  - News Distribution up 5% to £20m

- Total like-for-like (LFL) sales down 3% to £1.3bn reflecting the continued tough trading environment and our strategy not to chase unprofitable sales

  - Travel Retail LFL sales up 3%
  - High Street Retail LFL sales down 6%
  - News Distribution LFL sales down 2%

- Headline[(2)] earnings per share of 32.6p (2005: 28.4p per share)

- Basic earnings per share of 33.1p (2005: 23.5p per share)

- Strong free cash flow of £62m (2005: £54m)

- Interim dividend increased by 13% to 5.1p (2005: 4.5p)

- Intention to separate the Retail and News Distribution businesses

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

"We have maintained our focus on Group profitability. Our Travel Retail business has had a strong first half with good sales growth, outperforming passenger growth, and an 18% increase in profit. In a challenging environment High Street Retail has increased its profitability by 6% and is on track in the delivery of its plan. News Distribution continues to make good progress, delivering an industry-leading performance through service improvements and tight cost control. Overall, we continue to be cautious about consumer spending. However, we remain confident in the outcome for the full year.

"We have today announced our intention to separate our Retail and News Distribution businesses. This separation will enable these distinct businesses to benefit from increased focus and to pursue their strategies to maximum effect."

(1) Reported profit before tax of £76m (2005: £60m including discontinued items)
(2) Headline: Continuing profit before tax, exceptional items and IAS 19 pension interest - undiluted

- Ends -

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A summary of WH Smith PLC's Interim Results 2006 will be published in The Times newspaper on Thursday, 13 April 2006. WH Smith PLC's Interim Results 2006 are also available at www.whsmithplc.com and a copy of the Interim Results 2006 will shortly be available for inspection at the UK Listing Authority, 25 The North Colonnade, London, E14 5HS.

CURRENT TRADING

In the 6 weeks to 8 April 2006, Retail LFL sales* were down 3% and gross margin was up on last year. News Distribution sales were up 1%.

* Due to the difference in the timing of Easter, this year's current trading period is not comparable with last year's current trading period.

FINANCIAL REVIEW

Group Summary

The Group's profit has continued to increase despite the tough trading environment. Travel Retail improved its divisional profit by 18% to £13m. This strong performance, with good sales and margin growth, was driven by improvements to ranges and space management. High Street Retail divisional profit has improved by 6% to £57m as we focused on good category mix management and cost control. News Distribution improved its divisional profit by 5% to £20m and continues to make good progress, delivering an industry leading performance through service improvements and tight cost control.

Overall, the Group generated a profit before tax and exceptional items of £71m (2005: £68m), an increase of 4% on the prior year, reflecting interest costs and non-cash charges. Profit before tax was £76m (2005: £60m including discontinued items).

Headline earnings per share increased by 15% to 32.6p (2005: 28.4p) with basic earnings per share of 33.1p (2005: 23.5p), up 41%.

Cash generation was strong due to the improved trading performance in the businesses and good stock and debtor control. Group free cash flow was £62m (2005: £54m). The increase in net assets to £91m (2005: £65m) reflects the significant reduction in the net pension liability.

In light of the Group's improved profit performance and its future prospects, the Board has declared an interim dividend of 5.1p per share (2005: 4.5p), an increase of 13%.

We also today announce our intention to separate our Retail and News Distribution businesses, conditional upon shareholder approval. The separation will allow increased focus on their respective strategies as independent businesses.

An independent News Distribution business will be even more responsive to publisher needs and will invest further in publisher facing service. It will also be able to work more effectively with other retailers, free of the link to a key retail competitor and it will be better placed to maximise its technological investments, win new business and develop new revenue streams.

WHSmith Retail will benefit from greater focus, enabling High Street Retail to continue the delivery of its recovery plan and Travel Retail to continue on its growth path.

The separation is likely to be via a demerger of the Retail business. No timetable has been set at present. Further details of the separation will be given in due course.

BUSINESS RESULTS

NB: All divisional profit and loss figures in this section are stated before allocation of share based payment charges of £4m (2005: £2m), pension charges of £5m (2005: £5m), interest and taxation.

Retail

Retail sales fell by 6% to £771m (2005: £816m) with LFL sales down 5%. Despite challenging trading conditions Retail divisional profit increased by 8% to £70m (2005: £65m) as we maintained our focus on profit maximisation, cost control and not chasing unprofitable sales.

High Street Retail sales were down 7% at £621m (2005: £670m) and down 6% on a LFL basis (adjusting for selling space). Travel Retail sales grew by 3% to £150m, up 3% on a LFL basis. High Street Retail divisional profit increased by £3m to £57m for the period and Travel Retail divisional profit rose by £2m to £13m for the period.

Book LFL sales were down 4% with gross margin up year on year as we focused on stabilising our market share versus the general high street and maximising profitability. We achieved this by delivering profitable promotional events while creating a very competitive Christmas offer. We also focused on improving the retail basics in the category. In Children's books for example to improve our customer offer we reviewed the range architecture, we improved the use of space to reflect seasonality of products and delivered better promotions. This resulted in increased sales and market share. We intend to replicate this focus in other book sub-categories going forward. We continue to trial new store environments, increased ranges and different levels of service in books. In the second half of the year we will increase the space devoted to books in more stores.

Stationery LFL sales were down 4% versus last year. Sales were impacted by reduced consumer spending in the market and our decision to remove unprofitable sub-categories such as electronics. This action had a negative impact on sales but a positive impact on profit. Stationery gross margin also improved in the period from the continued benefits of Far East sourcing, improved mix management and consolidation of suppliers. Our stationery trial store in Barnet performed well in the period and we will incorporate the findings into some of our standard stores. We will also expand the amount of space we devote to stationery and introduce new ranges through the summer period.

News and Impulse LFL sales were up 2% year on year with an improvement in gross margin. We held share in newspapers and magazines by delivering focused promotional activity. We also implemented further changes in the magazine supply chain, which have improved efficiency and productivity in store. We grew our snacking and confectionery ranges by making better use of our space. The monthly magazine market remained depressed and partwork sales softened over the period as a consequence of a poor release schedule. We believe the partwork category has now reverted to its traditional levels after a couple of years with strong releases led by DVD collections.

The entertainment market was extremely competitive, with a weaker release schedule than in 2004/05 and on-going price deflation. LFL sales fell by 17% with an improvement in gross margin year on year as again we focused on delivering our plan. Stock was tightly controlled to reflect sales patterns, without any detrimental impact on availability levels, and this coupled with our move to the consolidator, E.UK, will allow us to rebalance an element of our entertainment space in the second half of the year to our other core categories.

Travel Retail delivered another strong performance, with divisional profit up 18% driven by good sales and margin growth combined with tightly controlled costs. Total LFL sales improved by 3% with sales growth in airports up 6%, well ahead of passenger growth, driven by improvements to our product ranges and more efficient use of our space. Total Rail LFL sales were down 1%. In particular, London Rail remains subdued.

Gross margin has improved in Travel Retail over the period as buying improvements and mix changes delivered more sales in higher margin categories such as snacking. Average transaction value also increased as a result of these mix changes and improved promotional activity.

In Travel Retail we continue to develop new store formats in both airports and stations. The airport bookstores we have opened at Gatwick North and London Luton airport are performing well and we will open a further airport bookstore at Bristol airport in May 2006. In addition, we opened a new bookstore in Liverpool Street station and two stationery stores at London Bridge and Charing Cross stations. We are also testing further channel opportunities and have opened two franchise stores with Moto, the motorway service stations operator.

Retail costs, including store occupancy costs, fell during the period despite cost inflation of approximately 3%. This was due to successful and focused cost control, which has led to £3m of cost savings, announced previously, being delivered ahead of schedule. We are on track to deliver 3-year cost savings of £48m.

The Retail business operates from 674 stores, which occupy 3.3m square feet (2005: 3.3m square feet). We opened 5 new stores in the period (Beverley, Barnet, Kidderminster, Sudbury and Liverpool Street Station). We relinquished some space in a number of our stores and the net effect on occupancy is broadly neutral.

News Distribution

Total sales were down 2% to £587m (2005: £599m) for the period. Newspaper sales were down 1% with price increases partially offsetting volume declines. Magazine sales were down 3%, as a result of the drop in monthly magazine sales, with part-works and one-shots down 13%. Against this backdrop, the market for weekly magazines has grown by 1% and it has benefited from new product launches such as *Love It* and *Real People*.

Divisional profit increased by £1m to £20m based on tight cost control and efficiency savings, together with the benefits of house closures we announced last year.

News Distribution continues to implement solutions to deliver service improvements for its publishing and retail customers. To this end, during 2005 we introduced market leading, transparent key performance indicators (KPIs) that allow full visibility of our logistics performance. The KPIs are agreed in conjunction with publishers, distributors and retailers and have generated a step change in service performance.

Performance is now measured across core logistics areas such as timely delivery, accuracy of supplies and returns, and product tracking to and from stores. Performance improvement has been delivered through the introduction of new measurement tools, a dedicated support team plus clear accountability and ownership at all levels in the business. The benefits of improving our service are cost savings and reduced wastage, as well as building better customer relations across the supply chain.

News Distribution has also continued to roll out its sales-based replenishment (SBR) system during the year; a total of 20 out of 22 news houses now have SBR capability. We have expanded the SBR offer and tailored the service to the specific needs of individual retailers. For retailers the benefit of SBR is improved availability of product, less unsold stock and therefore reduced stock handling for stores. We intend to roll out SBR to the remaining two news houses in the second half of the year so that we can offer SBR to more retailers, including independent retailers, on a nationwide basis.

We have also invested in new revenue streams and are now processing all the book returns for the High Street Retail business at our returns warehouse in Stratton. We will be rolling this out to Travel Retail in the second half of the year.

Contract renewals with publishers have progressed well in the first half of the year and we have now contracted circa 85% of our revenue. The average length of the new contracts is five years. We have also won a number of new contracts including new business for Northern & Shell and Comag in Derby and Frontline's distribution in Newcastle, Blackpool, Croydon, Derby, Oxford, Northampton, Cambridge and Bury St Edmunds.

The Office of Fair Trading announced in March that they will issue a new draft opinion on the distribution arrangements for newspapers and magazines at the end of May 2006, with a view to publishing their final opinion in the autumn of 2006. We believe we are well placed to adapt to any changes in the market and we remain focused on continuing to deliver excellent customer service to both publishers and retailers.

Non-operating activities

These results include finance costs net of investment income of £6m (2005: £3m). The increase in the net finance charges from last year is primarily due to lower investment income where in the prior year we had circa £200m of proceeds from the disposal of Hodder Headline earning interest for some of the period and interest on the £120m pension funding which was paid in monthly instalments over the year. In addition, net finance charges for the pension fund were £2m (2005: £2m). This represents the difference between interest earned on pension scheme assets and interest charged on pension scheme liabilities.

At 28 February 2006, the gross defined benefit pension deficit is £87m (31 August 2005: £96m). In September 2005 we introduced a Liability Driven Investment approach to the pension fund. As a result of the change in investment approach, over the long-term the profile of the scheme has become more predictable. The Group is committed to making pension deficit payments of £15m in the current year, £17m in 2006/07, £20m in 2007/08 and increasing by RPI (capped at 5%) thereafter until the deficit is repaid.

Deferred consideration of £11m was received in relation to the early settlement of loan notes received on the disposal of the US Travel Airports business to the Hudson Group in 2004.

A £5m exceptional gain was recognised in the period as a result of post retirement medical benefit liabilities being settled.

During the period, a repayment of £30m was made against the term debt, leaving net debt of £12m. Subsequent to 28 February 2006, the final tranche of £35m on the term debt has been repaid, one year early, reflecting the benefits of strong cash flow.