



WH Smith PLC is one of the
UK's leading retail groups.
We aim to be Britain's most
popular bookseller,
stationer and newsagent.



ABOUT US

- WH Smith PLC, one of the UK's leading retailers, is made up of two core businesses – High Street and Travel.
- Our extensive store portfolio spans high streets, airports, train stations and motorway service areas across the UK.
- WHSmith Direct – www.whsmith.co.uk – serves customers on the internet 24 hours a day.

- Overall WHSmith employs approximately 16,000 staff across the UK.
- WH Smith PLC is listed on the London Stock Exchange (SMWH) and is part of the FTSE 250 Index.
- A commitment to the principles of corporate responsibility is at the heart of the WHSmith brand. In 2007, we achieved a Gold ranking in Business in the Community's Corporate Responsibility Index in recognition of our achievements in this area.

WHSMITH AT A GLANCE

OUR TWO CORE BUSINESSES



HIGH STREET

2007 HIGHLIGHTS

Sales £961m (2006: £1,021m)

Profit¹ £44m (2006: £42m)

- High Street sells a wide range of Newspapers, Magazines, Stationery, Books and Entertainment products.
- Our objective is to be Britain's most popular high street stationer, bookseller and newsagent.
- As part of a franchise agreement with Post Office Limited, 77 Post Offices will be re-located to WHSmith High Street stores by Autumn 2008.
- We have a total of 544 High Street stores (2006: 543 stores), located in 399 out of the top 400 UK high streets.
- Stores range in size from 777 square feet to more than 23,000 square feet, with a total of 3m square feet of selling space as of 31 August 2007 (2006: 3m square feet).

TRAVEL

2007 HIGHLIGHTS

Sales £338m (2006: £319m)

Profit¹ £36m (2006: £31m)

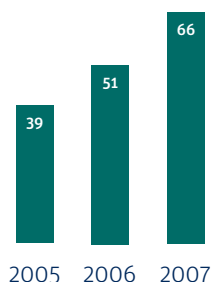
- Travel sells a tailored range of Newspapers, Magazines, Books and Confectionery products for people on the move.
- Our objective is to grow the business by securing new contracts and developing new formats.
- This year, Travel established a presence in a new channel, motorway service areas, opening 85 stores under franchise agreements with Moto and Welcome Break.
- The business operates from 309 units (2006: 205 units), in airports, railway stations and motorway service areas, as well as other locations including hospitals and bus stations, and one non-UK store located in Paris.
- Our Travel stores range in size from 90 square feet to more than 6,000 square feet, with a total of 0.2m square feet of selling space, excluding motorway service areas, as of 31 August 2007 (2006: 0.2m square feet).

¹ Profit from trading operations is stated before allocation of central costs, exceptional items, interest and taxation and after directly attributable share-based payment and pension service charges.

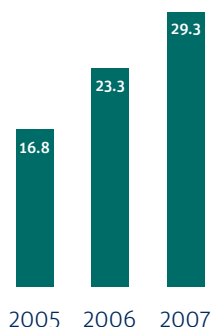
WH Smith PLC has delivered another year of strong profit performance, with Group profits¹ up 29% and strong free cash flow of £81m.

The Travel business grew strongly and the High Street business made further progress in line with its plan.

PROFIT BEFORE EXCEPTIONAL ITEMS AND TAXATION (£m)



UNDERLYING DILUTED EARNINGS PER SHARE² (pence)



¹ Profit before tax and exceptional items

² Profit after tax and before exceptional items – diluted

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The Group is now better balanced, with value more evenly split between the two businesses and key trading periods spread throughout the year.

ROBERT WALKER, CHAIRMAN

This year, WH Smith PLC's first as a Group focused solely on retail, saw further progress in both our High Street and Travel divisions. We continued to concentrate on creating shareholder value by improving our profitability and customer offering. The Group is now better balanced, with value more evenly split between the two businesses and key trading periods spread throughout the year, with a summer peak for our Travel business and a Christmas peak for High Street. It is now three years since we embarked on our turnaround plan and we are pleased to have delivered a £600m improvement in shareholder return during that time.

Although Group revenues were down 3 per cent at £1.3bn, Group profit before tax and exceptional items was 29 per cent ahead of last year at £66m. This is a very good result, particularly in light of continued competitive trading in our markets during 2006/07. This strong performance has led the Board to recommend a final dividend of 8.1p, demonstrating its confidence in the outlook for the business.

In High Street, our staff made significant progress in the delivery of our plan. Margins were up, reflecting our strategy of rebalancing the mix of our business towards our core categories, together with successful cost control. Our Travel staff also worked hard to drive growth, with the expansion of the division into a new channel: the motorway service area market.

The focus for our High Street business remains unchanged: we aim to improve gross margins by building authority in our core categories, manage the mix of products better, and keep a tight control of costs. This approach continues to bear fruit, enabling us to improve profitability¹ by 5 per cent, despite sales falling in a challenging market.

As part of our commitment to strengthening our authority in the core categories of Stationery, Books and News and Impulse, we have an active programme of category reviews which is helping to improve our High Street customer offer. This activity is particularly effective in Stationery, with encouraging customer reaction to the revised ranges in areas such as pens, Christmas seasonal items and PC consumables. A wide range of innovative offers and promotions, especially in News, Magazines and Books, ensures that we are giving customers better value.

Following a successful trial of Post Office franchises in six WHSmith stores, in April we announced an agreement with Post Office Limited to open Post Offices within 71 WHSmith High Street stores (in addition to the six trial stores). This commitment secures the future of main Post Office services in these towns, meaning local people will retain access to the full range of more than 170 Post Office services from a convenient location in the heart of their community. We believe the partnership is good news for both Post Office and WHSmith customers.

There is an excellent fit between these two well-known high street brands and the complementary products and services will enhance our own customer offering.

Our Travel business turned in another solid performance, with sales and profit¹ growth of 6 per cent and 16 per cent respectively. We continue to improve promotions and displays, for example by extending our books charts to help time-pressed travellers. Following the introduction of tighter airport security measures last year, our customers are spending more time airside than landside. We responded quickly to this trend, adjusting staffing levels and ranges and improving fixtures to increase space airside, ensuring the right products are available in the right place.

Travel also grew in new areas, most notably with the rollout of our motorway services offer. We have established a strong presence in this new channel, bringing WHSmith products direct to the motorist for the first time. Following successful trials, we opened WHSmith franchises in 50 Moto and 35 Welcome Break locations and are now developing further opportunities in this market.

Our staff can justly be proud of these results. Over the past three years their hard work, loyalty and determination have increased WHSmith's Group profit² by 235 per cent from £20m to £67m.

It is now three years since we embarked on our turnaround plan and we are pleased to have delivered a £600m improvement in shareholder return during that time.

Our people are crucial to the success of our business and we work hard to make sure that all employees, whether in head office, stores or distribution centres, have access to the tools they need to develop their careers. In stores, we have established programmes to develop potential supervisors, store managers and area or district managers. Around 100 delegates attended the store manager development programme this year, with more than two thirds receiving promotion upon completion of the course. In head office, high-potential employees are given the opportunity to take part in our Fast Track Academy programme, which prepares them for future senior management roles.

We are also proud of our continuing efforts to support the communities in which we operate. This year saw the second WHSmith Community Awards, which recognise

the excellent work teams in our stores and head office do in their local communities, working with local schools, charities and other community groups. Awards went to 20 teams across the UK who have all set a great example by building strong links with local good causes.

We are working hard to reduce the environmental impact of our business. New carrier bag designs introduced in 2006 have already delivered a 28 per cent reduction in the amount of plastic used. We are now taking this a step further: when a customer chooses not to take a carrier bag, we make a donation to the Woodland Trust, the UK's leading woodland conservation charity. Our target is to fund the planting of 10,000 trees by the end of 2008.

The annual Business in the Community's Corporate Responsibility Index provides an opportunity for us to benchmark our corporate responsibility performance against other leading UK companies. We were delighted to improve our performance for the fourth successive year, achieving a Gold ranking. We remain committed to managing our impact on society and the environment, while exploring ways in which corporate responsibility can enhance our business performance.

This year sees a change to the WH Smith PLC Board with MT Rainey retiring from the Board at the conclusion of the AGM, when she will have served two three-year terms as a Non-Executive Director. On behalf of the Board I would like to thank her for her contribution, commitment and service to the Company during the past six years and wish her well in the future.

Looking ahead, we expect the Christmas season to be very competitive, and we have planned accordingly. I am confident we will make good progress in implementing the initiatives we have planned to deliver further shareholder value. Thank you for your support.

Robert Walker
Chairman, WH Smith PLC
11 October 2007

¹ Profit from trading operations is defined as operating profit after directly attributable share-based payment and pension service charges and before allocation of central costs, exceptional items, interest and taxation.

² Group operating profit before exceptional items.



WHSmith intends to build on its position as the UK's most popular stationer, bookseller and newsagent by continuing to execute its High Street recovery plan and grow its strongly performing Travel business.

KATE SWANN, GROUP CHIEF EXECUTIVE

WH Smith PLC, one of the UK's leading retail groups, is made up of two core businesses – High Street and Travel. High Street sells a wide range of Newspapers, Magazines, Stationery, Books and Entertainment products and Travel sells a tailored selection of Newspapers, Magazines, Books and Confectionery for people on the move.

WHSmith's outlets are frequently first choice for people on the high street and we are a trusted convenience retailer for customers at travel locations. We have an extensive store portfolio operating from 544 High Street stores and 309 Travel units, with market-leading positions in Books, Magazines and Stationery. Overall, WHSmith employs approximately 16,000 staff across the UK.

WHSmith also reaches customers via WHSmith Direct – www.whsmith.co.uk – serving customers on the internet 24 hours a day.

WH Smith PLC is listed on the London Stock Exchange (SMWH) and is part of the FTSE 250 Index. More information about the business is available at www.whsmithplc.com.

WH SMITH PLC: CORPORATE OBJECTIVES

WHSmith intends to build on its position as the UK's most popular stationer, bookseller and newsagent by continuing to execute its High Street recovery plan and grow its strongly performing Travel business.

We aim to improve the Company's profitability¹ and cash flow generation, delivering sustainable returns and increasing dividends to shareholders. We believe that a concentration on these factors will be reflected in a total shareholder return that compares well with our peer group of equivalent listed companies.

We invest where we believe we will achieve a return on investment above our cost of capital. While external economic and other factors might affect us in the short term, the markets we are focused on are growth sectors, which we believe will deliver sustainable returns.

In July 2004 we announced plans to improve the performance of our High Street business. The High Street recovery plan concentrates on rebuilding authority in core categories, optimising margins, controlling costs and ensuring we deliver the retail basics.

High Street is now three years into the plan and we have made significant progress; in the year to 31 August 2006 trading profits¹ grew by 14 per cent to £42m, having risen by 164 per cent the previous year to £37m, from £14m in the year to 31 August 2004. This year profits¹ increased further, by 5 per cent to £44m.

Travel is focused on delivering value to shareholders through organic growth in its existing outlets, securing new contracts and trialling new formats.

The division has been performing strongly, with trading profits¹ growing by approximately 100 per cent since 2003. In the year to 31 August 2006, Travel had revenues of £319m and trading profit¹ of £31m. This year profits¹ rose by 16 per cent to £36m.

We aim to act responsibly towards all our stakeholders, including customers, suppliers, business partners, employees and the communities in which we operate. Our annual Corporate Responsibility Report is available at www.whsmithplc.com/cr, with a summary of our approach on page 20 of this report.

We aim to improve the Company's profitability and cash flow generation, delivering sustainable returns and increasing dividends to shareholders.

WHSMITH HIGH STREET

Nature of business

High Street operates 544 stores. It is present in 85 per cent of the top 500 UK retailing locations and 95 per cent of its stores are in prime locations with high customer traffic. With a presence on nearly every significant high street in the UK, the High Street store portfolio has extensive reach across the UK. At 31 August 2007, High Street operated from a total of 3m square feet of selling space, with stores ranging in size from 777 square feet to more than 23,000 square feet.

High Street sells a wide range of products, which are divided into four categories: News and Impulse (including newspapers, magazines, confectionery and other impulse products), Stationery (including greetings cards), Books and Entertainment (including music, video and multimedia games). High Street's trading is relatively seasonal with peaks at Christmas, Easter and in September for the 'Back to School' range.

The online retail business is operated by High Street and sells a range of Books, Magazines, Stationery, Gifts and Entertainment products through its website at www.whsmith.co.uk. The online business has access to two million book titles and is the UK's second largest online book retailer with an average of approximately 150,000 visits to the site per week.

In the year to 31 August 2007, High Street had revenues of £961m and trading profit¹ of £44m.

Markets in which we operate

The British Retail Consortium (BRC) categorises our operations (High Street and Travel) in its Other Non-Food sector. While this list is not exhaustive, Other Non-Food includes products such as books, newspapers and magazines, stationery, PC consumables, entertainment products, toys and games, DIY, gardening supplies, electrical appliances and sports and leisure equipment.

Growth drivers

High Street's performance is dependent upon overall growth in consumer spending, growth in the non-food, non-clothing sector and High Street's ability to take share in its product markets.

The management team believes that, following the current slowdown in consumer spending in our markets, we should see a return to more normal levels of growth over the longer term.

Competitive position

High Street's competition comes primarily from other high street specialists, supermarkets and internet retailers. Online retailers offer customers access to our product categories conveniently via their computers, while supermarkets give customers access to our product categories as they carry out their regular food shopping.

The growth of either retail format may take market share away from High Street and have a negative effect on the sales and profit generated by our High Street stores.

Competitive strengths

High Street has significant competitive strengths. The Board believes it is well placed to deliver strong cash generation and long-term earnings growth to create shareholder value through its:

- Widely respected and recognised brand
- Prime sites in key UK high street retail locations
- High customer footfall
- Market-leading positions in its target categories, allowing it to operate with scale
- Purchasing and sourcing scale, driving value for the customer
- Experienced senior management team
- Integrated multi-channel offering, allowing customers to shop in-store or online as well as having products delivered to home or store

¹ Profit from trading operations is stated before allocation of central costs, exceptional items, interest and taxation and after directly attributable share-based payment and pension service charges.

For the full year we delivered savings of £10m, from areas of the business including logistics, information systems and stores.

High Street: objectives and strategy

WHSmith announced its plans for improving the performance of High Street in July 2004. The plan centres on three areas: rebuilding authority in core categories, optimising margins, controlling costs and retail basics.

(1) Rebuilding authority in core categories

Key changes include:

- Re-engineering ranges to concentrate on more profitable categories. This has contributed to a reduction in sales, but has had a beneficial effect on overall margins
- Introducing more price points, new ranges, improved pricing and improved promotions across all categories
- Increasing choice and availability through higher density fixtures and changes to the supply chain
- Rebalancing space towards higher growth and more profitable product categories

(2) Optimising margins

Margin optimisation measures include:

- A positive shift in product mix by switching sales from low-margin categories such as Entertainment to higher margin categories such as Stationery and Books
- An improved promotions and buying strategy
- A lower cost of goods sold, through improving supplier terms and improved sourcing
- A focus on reducing shrinkage
- A reduction of the overall stock held and more effective management of stock markdowns

(3) Controlling costs and retail basics

Cost control measures include:

- Increased productivity across the business
- Improved flexibility of staff hours
- Rationalisation of logistics through increased efficiency in distribution centres and reduced returns
- Outsourcing and contract renegotiation in IT services to improve efficiency
- Better not-for-resale purchasing

High Street: risks and uncertainties

WHSmith's management team has identified the following factors as major potential risks to the successful performance of the business. Some, such as IT failures require specific, identified actions to mitigate their effect. Others, such as the impact of competition, are areas addressed through strategic planning and operational management processes.

(1) Competition in the retail industry

High Street operates in highly competitive markets and its failure to compete effectively may lower revenues obtained through our stores.

(2) Poor economic conditions or slowdown

As a UK retailer, High Street is sensitive to the economic climate and can be affected by the general condition of the UK retail and travel markets. An outbreak of a pandemic disease (such as avian flu), an act of terrorism or war could reduce the number of customers visiting WHSmith outlets, causing a decline in revenue and profit.

(3) Inability to predict accurately or fulfil customer preference or demand

The retail industry is subject to changing customer tastes. High Street's performance is dependent upon effectively predicting and quickly responding to changing consumer demands. It must also translate market trends into saleable merchandise.

(4) Seasonal fluctuations in sales

High Street is exposed to seasonal demand for certain core categories. Christmas and the Back to School period are critical trading periods and therefore may be affected by depressed consumer footfall or spending, hitting sales and profit.

(5) Failure or interruption in product supply

High Street has agreements with key suppliers in the UK, Europe and the Far East. The interruption or loss of supply of core category products from these suppliers to our stores may affect our ability to trade.

(6) Failure or interruption of information technology systems

In common with most retail businesses, High Street relies on a number of important IT systems. Any system performance problems could seriously affect our ability to trade.

(7) Lack of new store growth opportunities

High Street's stores are already present in most of the major high street locations across the UK. Our ability to grow through expansion of this portfolio may be limited.

(8) Reliance on the WHSmith brand

The WHSmith brand is an important asset. Failure to protect it, an event that materially damaged its reputation and/or the failure to sustain its appeal to customers, could have an adverse impact on revenues.

High Street: operational review 2006/07

The High Street business continues to focus on the implementation of our plan to rebuild our position as Britain's most popular stationer, bookseller and

newsagent. We are pleased to report that we are making good progress. Profits¹ for High Street are up 5 per cent year on year, delivered through maintaining focus on rebuilding authority in our core categories, tightly controlling costs, optimising margins and delivering the retailing basics.

Sales for the year were down 6 per cent, but gross margins improved by around 280 basis points, both developments reflecting our strategy to rebalance the mix of our business to concentrate on our core categories of Stationery, Books and News and Impulse, and to reduce our reliance on Entertainment.

Cost control remains a core element of our plan. In October 2006, we set a target of cutting cost by £22m over three years. For the full year we delivered savings of £10m, from areas of the business including logistics, information systems and stores. We have identified further savings of £11m to be made over the next three years.

More efficient use of certain commodities, such as carrier bags and energy, helped cut costs, while also helping to meet our environmental objectives.

Some of these savings came from our ongoing programme to increase efficiency in key business functions, notably in information systems through further outsourcing and renegotiation of contracts, and in distribution, through better efficiency and reduced returns. In stores, we have made further progress with our staff flexibility programme, allowing us to flex labour with sales. Our goods not-for-resale purchasing also improved. The review and renegotiation of contracts enabled us to achieve savings in facilities management and cleaning. More efficient use of certain commodities, such as carrier bags and energy, helped reduce costs, while also helping to meet our environmental objectives.

Margins rose significantly, largely due to the strategy mentioned above: to change the mix of products we sell by reducing the amount of space dedicated to low-margin products such as Entertainment, and rebalancing the mix of the business to focus on higher margin categories such as Books and Stationery. We expect further mix changes to be a key driver of overall profit growth in the years to come, without relying on top-line sales growth in the short or medium term.

The remaining improvement in gross margin came from better management of promotions, markdowns and buying, and improved sourcing.

Our Christmas promotional strategy sought to improve gross margins while remaining price competitive. In Books, for example, we controlled margin well in the run up to Christmas, balancing some very competitive offers – such as half price on all top 20 hardbacks – with less aggressive activity elsewhere. We achieved excellent market shares in favourite Christmas titles such as Peter Kay's *The Sound of Laughter*, demonstrating the success of our initiatives and their relevance to our customers.

In High Street, we continued to focus on rebuilding authority in our core categories, optimising margins, keeping a tight control of costs and delivering the retail basics.

We lowered our cost of goods sold by improving buying terms and improving sourcing. We also maintained our rigorous focus on product shrinkage and markdown management. In Stationery, for example, a successful markdown strategy for Christmas cards meant we wrote off very little stock in January, leading to reduced like for like sales in January, but materially more profit.

We continued with our strategy to rebuild our authority as a popular book specialist and to compete more effectively with other high street specialists. We made further progress in building our market share versus the general high street, continuing a track record of improving market share performance over the last two years. We are particularly pleased to have maintained this performance in the second half of the year in the face of what were, as we had expected, very competitive offers on *Harry Potter* and *the Deathly Hallows*. Despite the activity of our competitors, we achieved strong, profitable sales on *Harry Potter and the Deathly Hallows*.

Work to improve ranges continues to deliver encouraging results across our core categories. For example, we successfully trialled key author bays for Kids books, helping to promote authors such as Jacqueline Wilson. The new displays were well received and are being rolled out to all stores. In Stationery, we are using a programme of category reviews to improve our ranges. We began this time last year with Christmas seasonal ranges, which

went into stores for Christmas 2006, with positive results. Further reviews carried out during the year in categories such as pens and PC consumables are also delivering improved performance. This year also saw the completion of a new category management system for magazines which has allowed us to introduce magazine ranges tailored to the profile of the customers in a specific area, for example, allowing us to offer a greater range of yachting titles in an area like Southampton or more business titles in the City of London.

Operational improvements remain a priority. In Books, investment in IT systems enabled us to manage the returns process more efficiently, both for our standard range of titles and for promotional stock. Our 'excellence' programmes in Books and Stationery ensure the right promotions are in place and key products and titles are available. On-shelf availability checks for Stationery are now carried out for the top 600 lines. Together, these initiatives have contributed to good mystery shopper scores.

As part of our work to make better use of the space within our stores and improve our customer offer, we trialled the introduction of Post Offices into six High Street stores: at Altrincham, Ashton-under-Lyne, Hammersmith, Shrewsbury, Slough and Swansea. The integration was complex but we managed to limit disruption to the stores.

Customers quickly saw the benefits of the move, welcoming the pleasant new Post Office environment, good levels of customer service, convenient locations and additional services such as extended opening hours.

Following the success of these pilots, we announced an agreement with Post Office Limited to open Post Offices in a further 71 High Street stores. The agreement secures the future of main Post Office services in these towns and means local people retain access to the full range of more than 170 Post Office services from a convenient and easily accessible location in the heart of their town.

There is a natural fit between these two well-known and valued high street brands, with their complementary products and services providing an exciting opportunity to enhance the customer offering for both WHSmith and Post Office customers. Moreover, the partnership supports our strategy to change the mix in our stores and make better use of our space.

By Autumn 2008 we anticipate most of the 71 Post Office branches will have relocated to the local WHSmith store, on average less than 250 metres from the site of the original Post Office. Twenty-three Post Offices are already open in WHSmith stores and early customer feedback is encouraging.

High Street: financial review 2006/07

£m	2007	2006	Growth %	LFL Sales Growth %
Revenue	961	1,021	{6%}	{6%}
Profit from trading operations ¹	44	42	5%	

¹ Profit from trading operations is stated before allocation of central costs, exceptional items, interest and taxation and after directly attributable share-based payment and pension service charges.

High Street sales were down 6 per cent and on a like for like basis, down 6 per cent, reflecting our strategy to rebalance the mix of our business. Profits¹ increased by 5 per cent to £44m (2006: £42m), in line with expectations. Markets were as challenging as we anticipated in the first half of the year, but we benefited in the second half from the publication of *Harry Potter and the Deathly Hallows*, the poor Summer weather and the absence of a major sporting event such as the 2006 World Cup. We continued to focus on rebuilding authority in our core categories, optimising margins, keeping a tight control of costs and delivering the retail basics.

Gross margin improved by around 280 basis points, driven by rebalancing the mix of our business, low-cost sourcing, better buying and improved markdown management.

Like for like sales of Books were up 1 per cent, thanks to our efforts to rebuild our authority as a popular book specialist and maximise profitability. Gross margin was down including *Harry Potter and the Deathly Hallows* and up excluding *Harry Potter and the Deathly Hallows*. Stationery like for like sales fell 3 per cent, reflecting a stationery market that has been soft throughout the year. Gross margin was up, driven by intra-category mix, improved sourcing and better markdown management. We continue to improve our ranges in this broad and diverse category through a programme of range reviews.

News and Impulse saw an improvement in gross margin in the year. The magazine market was challenging but our share in News and Magazines remained stable, supported by successful promotions with major newspapers. In Entertainment, we continued with our strategy to reduce steadily our reliance on this category and as we do this, we are optimising profitability. Like for like Entertainment sales declined 32 per cent in an extremely competitive market with continuing price deflation.

High Street delivered £10m of cost savings during the period, £3m ahead of our target. Cost savings came from a number of areas, such as better purchasing of goods not-for-resale and a continued efficiency programme in IT.

The High Street business now operates from 544 stores, occupying 3m square feet (2006: 3m square feet). We opened four new stores and closed three.

WHSMITH TRAVEL Nature of business

The Travel business trades under the same brand as the High Street stores and operates 309 units in airports, railway stations and motorway service areas across the UK. Travel's stores sell a more tailored range of products than High Street stores, to cater for people on the move. Travel's typical customer has less time to browse than the High Street customer and is more interested in reading materials for a journey and quick purchases of food, drink and confectionery. Consequently, there is a limited demand for entertainment and stationery products, and the stock and format of each Travel store reflects this.

Due to their location and convenience nature, Travel stores are, on average, significantly smaller than those in the High Street portfolio. At 31 August 2007, Travel operated from a total of 0.2m square feet of selling space, with stores ranging in size from 90 square feet to more than 6,000 square feet. Of the 309 Travel units, 85 are in London and regional airports, 33 are in London railway stations (including eight Underground stations), 79 are in provincial railway stations and 87 are in motorway service areas. We also operate one non-UK Travel store, in Paris, and 24 units in locations such as hospitals, bus stations and workplaces.

Travel has a separate operating structure and management team from High Street, reflecting the distinct operational and strategic challenges of the two businesses. Travel stores are in higher footfall locations than High Street stores, resulting in higher average rents. They are less affected by the Christmas trading period, although increased passenger traffic during the Summer holiday season, particularly in airports, contributes to a Summer peak in sales.

Travel has significant competitive strengths. The Board believes it is well placed to deliver strong cash generation and long-term earnings growth to create shareholder value.

Markets in which Travel operates

Travel operates in airports, railways and motorway service areas in the UK, selling a range of Newspapers, Magazines, Books, Food, Drink and Confectionery products for customers on the move.

Travel remains focused on increasing average transaction value, making improvements to trading efficiency, securing new contracts and trialling new formats.

Growth drivers

The Travel business offers opportunities for expansion in each of its three channels, and continues to win new contracts in airports and railway stations. Long-term forecasts predict that airport passenger numbers will keep rising and so we expect to see further opportunities to grow our sales. Following rapid progress to establish a presence in the motorway service area market, Travel plans to open further units with other motorway service area operators during the coming year. The business is also developing other Travel store formats such as Stationery-only outlets and specialist Book stores.

Competitive position

Travel operates stores in high footfall locations that are highly dependent on commuter and travelling customer traffic. A trend of increasing passenger numbers in railway stations and airports has led to increased footfall in Travel stores, contributing positively to financial results.

That said, geopolitical events, war and acts of terrorism, such as the London bombings on 7 July 2005 have, from time to time, contributed to a reduction in commuter and travelling customer traffic and a heightened apprehension of rail and air travel. Closure of routes, both planned and unplanned, can also affect operating results.

Travel faces competition in its product categories primarily from other convenience retailers in rail and from category-specific stores in airports. The growth of either retail format may take market share from Travel and have a negative impact on sales and profit.

Competitive strengths

Travel has significant competitive strengths. The Board believes it is well placed to deliver strong cash generation and long-term earnings growth to create shareholder value through its:

- Widely recognised and respected brand
- Prime locations within railway stations, airports and motorway service areas
- High levels of customer footfall
- Market-leading positions in its categories, allowing it to operate with scale
- Purchasing and sourcing scale, driving value for the customer
- Experienced senior management team
- Strong relationships with landlords at travel locations
- Wide reach across the travel retail sector

Travel: objectives and strategy

Travel remains focused on increasing average transaction value, making improvements to trading efficiency, securing new contracts and trialling new formats.

Increasing average transaction value

Average transaction value increased through:

- Improved product ranges in higher margin categories such as Confectionery, Snacking and Stationery
- Increased promotional activity and improvements in product mix
- More efficient use of space, due to improved queuing systems and increased fixture densities.

Making improvements to trading efficiency

Measures include the introduction of:

- Sales-based replenishment
- Extended opening hours and increased flexibility of staff hours
- Improved buying and supplier terms

Securing new contracts and trialling new formats

Initiatives include:

- Negotiations for new contracts in both airports and railway stations
- Growth of specialist Stationery and Book stores in airports and railway stations
- Further development of opportunities in the motorway service area market

Travel: risks and uncertainties

WHSmith's management team has identified the following factors as major potential risks to the successful performance of the business. Some, such as IT failures, require specific, identified actions to mitigate their effect. Others, such as the impact of competition, are addressed through strategic planning and operational management processes.

(1) Disruptions in travel

Travel operates in high footfall locations, which are very dependent on commuter and travelling customer traffic. In the past, geopolitical events, wars and acts of terrorism such as the attacks of 11 September 2001 and 7 July 2005 have contributed to decreased levels of customer traffic. Closures in travel routes, both planned and unplanned, may have a material effect on the business if passengers are diverted from key Travel stores.

(2) Loss of tenancy contracts

Travel has a presence in most of the UK's major airports and railway stations. There is no guarantee that licences will be renewed or that Travel will be able to bid successfully for new licences in new locations.

(3) Change of control clauses

The majority of Travel's airport and railway concession

agreements contain change of control clauses, giving various rights to the grantor of the concession, such as termination of the contract, in the event of a successful takeover bid for WHSmith.

(4) Poor economic conditions or slowdown

As a UK retailer, Travel is sensitive to the economic climate and can be affected by the general condition of the UK retail and travel markets. An outbreak of a pandemic disease (such as avian flu), an act of terrorism or war could reduce the number of customers visiting WHSmith outlets, causing a decline in revenue and profit.

(5) Competition in the retail industry

Travel operates in highly competitive markets and its failure to compete effectively, with convenience and category-specific retailers, may affect revenues obtained through our stores.

(6) Failure or interruption of information technology systems

In common with most retail businesses, Travel relies on a number of important IT systems. Any system performance problems could seriously affect our ability to trade.

(7) Reliance on the WHSmith brand

The WHSmith brand is an important asset. Failure to protect it, an event that materially damaged its reputation and/or the failure to sustain its appeal to customers, could have an adverse effect on revenues.

In 2007, Travel delivered another strong performance. Profit was up 16 per cent and like for like sales increased 2 per cent.

Travel: operational review 2006/07

Travel delivered another strong performance. Profit was up 16 per cent and like for like sales increased 2 per cent, achieved as a result of increased sales combined with improved gross margin and tight cost control. Performance in the second half of the year was impacted by the introduction of the UK smoking ban in public places, by the fact we did not have a hot Summer compared to the very hot weather last year and, in Air, by the ban on onboard liquids.

Gross margin improved over the period as a result of good category mix management and further buying efficiencies. As in High Street, costs were rigorously controlled.

Continuing its growth path, the Travel business made significant progress, with 20 contract renewals,

18 new units and one unit closure. We successfully built a strong presence in the motorway service area market and now have 87 units open with leading motorway service operators.

Airport stores

In our Airport stores we delivered robust sales growth of 5 per cent like for like, however sales slowed in the second half of the year due to the impact of the onboard liquid restrictions and the smoking ban.

Following the new security measures on reduced hand baggage implemented last year, we saw a shift in sales from landside to airside. We responded swiftly to this, for example by adjusting staffing levels to match demand. To increase fixture density and capacity airside, we made a number of improvements, such as extra shelves on confectionery and book gondolas, and more mobile tills. We expect to see further changes as a result of this airside shift, with landlords adjusting their space balance as well.

We are seeing encouraging results from the new motorway stores, and motorists are clearly pleased to have the opportunity to shop with a well-known high street brand.

Enhancements to our product ranges are enabling us to serve customers better, both landside and airside. Extensions to our drinks offer, especially water, have been delivered by providing more fridge space, primarily in our airside stores. We are now able to tailor our ranges to specific stores dependent on destination and location. For example, we have introduced landside-only ranges, such as miniature toiletries.

We also made good progress on airport contracts. We renewed eight contracts for units at locations including Glasgow, Luton and Stansted. We opened 15 new units during the year, including Manchester Terminal 2, Bournemouth and Luton, as well as three specialist Bookstores at Newcastle, Birmingham and Liverpool, and two Stationery stores at Heathrow Terminal 3 and Birmingham.

Rail stores

Trading in our Rail stores continued to be challenging in 2006/07. Like for like sales were flat with tough trading conditions in the second half of the year,

especially in London, caused by the poor Summer weather (compared to the previous very hot Summer weather), the UK smoking ban in public places and the continued impact of free London newspapers, which affected sales of evening newspapers and related items.

We responded to these conditions by looking at ways to improve our ranges further, thereby increasing customer choice and driving average transaction value. Trials of new ranges delivered positive results, for example, a new premium fashion stationery selection is now being rolled out following a successful pilot. Other developments include the introduction of a wider range of breakfast options to our chilled ranges and a larger snacking selection.

The Rail business also made improvements to promotions and displays in core categories, similar to those made in Airports. This saw the introduction of a permanent Book of the Week feature and the extension of our book chart offering from 30 to 50 titles in fiction and from 20 to 30 titles in non-fiction, all making it easier for time-pressed travellers to find what they need.

We completed the rollout of a new EPOS till system across both Rail and Airport stores. The system provides faster transaction times and enables us to offer additional services, such as e-top up and e-gift cards, enhancing our customer offering.

We made solid progress with contracts, renewing a total of 11 contracts at locations including Colchester, Hull and Bromley. We opened two new units in Durham and Doncaster, and won five new contracts. These new units, including three at the newly refurbished St Pancras Station and one in the new Eurostar terminal at that station, are due to open in 2008.

Motorway stores

Since our announcement in November 2006 of plans to open stores in motorway service areas, we have built a strong presence in this new channel, bringing our Confectioner, Tobacconist and Newsagent (CTN) offer direct to the motorist.

We completed a challenging rollout plan ahead of schedule and now have 50 Moto and 35 Welcome Break stores, all operated under a franchise agreement. Although it is still early days, we are seeing encouraging results from the new stores, and motorists are clearly pleased to have the opportunity to shop with a well-known high street brand.

As part of the rollout of the WHSmith format, we have introduced the key strengths of the Travel offer to broaden customer choice, for example, doubling the size of key product ranges like Books and Magazines and adding new ranges like Stationery and Gifting.

We are developing other opportunities in this market, specifically leasehold sites with other motorway service area operators. One of these stores, with Swayfield, has already opened at Cullompton, near Exeter.

Travel: financial review 2006/07

£m	2007	2006	Growth %	LFL Sales Growth %
Revenue	338	319	6%	2%
Profit from trading operations ¹	36	31	16%	

¹ Profit from trading operations is stated before allocation of central costs, exceptional items, interest and taxation and after directly attributable share-based payment and pension service charges.

Travel delivered another good performance with sales growth of 2 per cent on a like for like basis. This was driven by the Airports business, which was up 5 per cent on a like for like basis. This performance can be attributed to improved ranges, innovative promotions and the successful rebalancing of sales from landside to airside. Total sales in Travel increased 6 per cent, driven by new business development gains and expansion into the motorway service area market, both reflecting our strategy to grow the Travel business. Profit¹ increased by 16 per cent to £36m (2006: £31m), as a result of higher sales combined with improved gross margin and tight cost control.

Gross margin increased through effective category mix management and buying improvements, resulting in more sales in higher margin categories such as Confectionery and Books.

We will not chase sales at the expense of profit but will concentrate solely on profitable activity, while consistently delivering a solid operational performance and the retail basics.

The Travel business now operates from 309 units, including motorway service area franchise units. At 31 August 2007 Travel operated from a total of 0.2m square feet excluding motorway service areas (2006: 0.2m square feet).

OUTLOOK

This year has seen further good progress from the Group. We are on track with our plan to deliver value to shareholders, however there remains more to be done. In High Street we saw further progress in the delivery of our plan: margins were up, reflecting our strategy of rebalancing the mix of our business to focus on our core categories, together with successful cost control. In Travel, we achieved a good performance, with strong sales and margin growth delivered through improved ranges and better use of space, as well as new business development. None of this could have been achieved without the dedication and hard work of our staff.

We will continue to implement more of these changes, in line with our plan, in the year ahead. Looking forward to Christmas, we expect that consumer spending will remain subdued and that trading will be extremely competitive, and have planned accordingly. We will not chase sales at the expense of profit but will concentrate solely on profitable activity, while consistently delivering a solid operational performance and the retail basics.

Kate Swann
Group Chief Executive, WH Smith PLC
11 October 2007



The Group has delivered a strong group profit performance with profitability¹ increasing by 29 per cent to £66m.

ALAN STEWART, GROUP FINANCE DIRECTOR

The Group has delivered a strong group profit performance with profitability¹ increasing by 29 per cent to £66m. High Street delivered a profit increase in line with expectations as we continued with our strategy to rebalance the mix of the business. Travel's growth in profitability was achieved as a result of increased sales combined with improved gross margin and tight cost control.

The Group generated a profit before tax and exceptional items of £66m (2006: £51m), an increase of 29 per cent. Profit after tax and exceptional items was £60m (2006: £32m).

Underlying earnings per share² from continuing operations increased by 26 per cent to 29.3p (2006: 23.3p) with basic earnings per share³ of 33.1p (2006: 18.2p).

The Board has proposed a dividend per share of 8.1p (2006: 6.2p), an increase of 31 per cent on the prior year, which reflects our improved profitability¹. This gives a total dividend per ordinary share of 11.8p.

Cash generation has strengthened due to improved profitability and good working capital control. Group free cash flow was £81m (2006: £68m), a £13m increase on the prior year, which is consistent with our profit growth.

¹ Profit before tax and exceptional items.

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.

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 like for like (LFL) sales decline over the period was 4 per cent.

£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 per cent and on a LFL basis down 6 per cent, reflecting our strategy to rebalance the mix of our 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 and the Deathly Hallows*, the poor Summer weather and the absence of a major sporting event following the 2006 World Cup.

Travel sales growth of 2 per cent on a LFL basis has been driven by the Airports business, up 5 per cent on a LFL basis delivered through improved ranges, successful promotions and successfully rebalancing

sales from landside to airside. Total sales in Travel were up 6 per cent driven by new business development gains and our expansion into the motorway service area market, both reflecting our strategy to grow the Travel business.

Profit before exceptional items and taxation

£m	2007	2006	Profit Growth %
High Street ¹	44	42	5%
Travel ¹	36	31	16%
Trading operations profit¹	80	73	10%
Central costs	(14)	(14)	
Internal rents	1	1	
Operating profit²	67	60	12%
Net finance charges	(1)	(9)	
Profit before taxation²	66	51	29%

¹ Trading operations profit stated after directly attributable defined benefit service charge 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 per cent year on year. Operating profit² increased by 12 per cent from £60m to £67m as a result of strong improvements in trading operations.

The £7m increase in profit from trading operations is discussed in detail in the respective business reviews. High Street delivered a profit¹ increase of 5 per cent to £44m (2006: £42m), in line with expectations, as we continued with our strategy to rebalance the mix of the business. Travel delivered another good performance with profit¹ increasing by 16 per cent to £36m (2006: £31m), which was achieved as a result of increased sales combined with improved gross margin and tight cost control.

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.

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 per cent (2006: 20 per cent).

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.

Final dividend of 8.1p per ordinary share, up 31 per cent on the prior year.

Dividends

The Board is proposing a final dividend of 8.1p per ordinary share. This is an increase of 31 per cent on the prior year and reflects our improved profitability, our strong cash generation and the future prospects of the business. This gives a total dividend for the year of 11.8p per ordinary share, up 27 per cent.

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.

The Group has delivered strong operating free cash flow of £81m, a £13m increase on the prior 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.

GROUP 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	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 assets increased to £227m, from £168m in the prior year.

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 and 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 liabilities		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.

The Group has made significant progress since 2003 in substantially reducing the Group's gross pension deficit from £152m at 31 August 2003 to £nil at 31 August 2007.

Return on capital employed

Total capital employed and return on capital employed (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 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.

ROCE increased to 41 per cent compared to 35 per cent in 2006.

TREASURY AND RISK MANAGEMENT

The Group's Treasury function seeks to reduce exposures to interest rate, foreign exchange and other financial risks, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The Group does not engage in speculative trading in financial instruments and transacts only in relation to underlying business requirements. The Group's treasury policies and procedures are periodically reviewed and approved by the Audit Committee and are subject to regular Group Internal Audit review.

Currency risk management

The Group's foreign currency exposure primarily arises through the purchasing of stock from outside the UK, denominated in US Dollars. Group Treasury uses forward foreign exchange contracts and options to hedge this risk. A number of foreign exchange forward contracts were entered into during the year. At 31 August 2007, the Group had no material unhedged currency exposures.

Interest risk management

At 31 August 2007, the Group does not have any long-term debt apart from obligations under finance leases.

Credit risk management

The Board approved Group Treasury policy limits the value that can be placed with each approved counterparty to minimise the risk of loss. These limits are based on a combination of short-term credit ratings of P-1/A-1 and long-term ratings of A1/A+ or better.

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 per cent share of the future cumulative rental commitment at approximately £76m (2006: £102m).

Alan Stewart
Group Finance Director, WH Smith PLC
11 October 2007

At WHSmith, we believe that good corporate responsibility (CR) is essential to the long-term success of our business. We remain committed to managing our impact on society and the environment, with our approach shaped by the views and expectations of our stakeholders. This year we were delighted to improve our performance in the annual Business in the Community Corporate Responsibility Index for the fourth successive year, achieving a Gold ranking.

Our stand-alone Corporate Responsibility Report, available at www.whsmithplc.com/cr, provides full details of our performance against targets we published last year, together with those we have set for the year ahead. Some highlights from this Report are included below:

MARKETPLACE

Customers are increasingly concerned about the social and environmental impact of the products in their shopping baskets. They want to be reassured that products they buy have not been made at the expense of the environment or of the workers who made the product.

Responsible marketing

Our customers are a diverse group and they often have strongly differing views about the products we sell. We are committed to offering our customers choice but also recognise that we have a responsibility to ensure we sell our products in a responsible manner. Following the introduction of our Marketing Code of Practice last year, we have trained our buyers on the Code and how it should influence their day-to-day work and be considered in all aspects of promotional activity, marketing and advertising.

Forest sourcing

It is our long-term aim that all virgin (i.e. non-recycled) material used in our products should come from known, legal, well-managed and credibly certified forests.

WHSmith continues to be a member of the WWF UK Forest Trade Network (FTN) – committed to tracing timber and paper products back to the forest source and to providing an annual report to the FTN. This year's survey covered 90 per cent of all WHSmith's own-brand products, up from 78 per cent last year, including data from all our key Far East own-brand suppliers; a good achievement as this is a complex region to collect forest sourcing data. In the year ahead, we aim to maintain or further increase this level of coverage.

In order to support improvement in our supply chain, we provide UK and Far East suppliers with guidance documents explaining the risks around forest sourcing and our responsible forest sourcing policies. We also trained our Hong Kong staff so they better understand the risks and requirements of forest source management, and can work with key suppliers to ensure the paper and wood products we buy are from well-managed sources.

The volume of material from recycled sources and certified forests* rose from 32 per cent to 41 per cent, a significant year on year increase. But we know there is more work to be done and we will be working hard to make further increases in the year ahead.

Ethical trading

We have a responsibility to ensure that our products are made in decent working conditions and our aim is that suppliers should, at a minimum, meet the standards set out in our Supplier Code of Conduct. We work with them to provide training and advice, and to demonstrate the benefits of improved labour standards. We also work with the Ethical Trade Initiative (ETI), an alliance of companies, Non-Governmental Organisations and trade unions, to promote and improve the implementation of corporate codes of practice covering supply chains.

Before we place an order, our specialist Hong Kong social compliance team visit all new suppliers to assess labour standards against our Code of Conduct, examining everything from factory production records to fire exits and worker dormitories. They then visit on a regular basis to ensure any necessary improvements are being made and provide support. This year, the team carried out 157 audits across China, India and the Far East. This year, we held a conference for key Chinese suppliers to train them on best practice. We also work with key suppliers on specific issues, for example health and safety. See the Corporate Responsibility Report for more information.

Engaging UK suppliers

As many of our UK suppliers also source components from around the world, our UK-based compliance team have been working with key UK own-brand suppliers this year to ensure they have robust systems in place to audit labour standards and forest sourcing practices in their supply base.

We know from our own experience that improving labour and forestry standards in the supply chain can be challenging and that commitment is required over the long-term to achieve real improvements. We will continue to support our suppliers as they follow this path.

Product stewardship

As well as working behind the scenes to improve the environmental and social performance of our products,

* Certified forests are managed in accordance with the requirements of specific certification bodies setting out the steps that must be taken to ensure the long-term sustainability of the forest. The certification schemes our suppliers use include the Forest Stewardship Council (FSC) scheme, Programme for the Endorsement of Forest Certification (PEFC) scheme and Sustainable Forestry Initiative (SFI). The approach taken by each certification scheme varies. We encourage suppliers to move towards certification under the FSC scheme, which is recognised by WWF as an indicator of a well-managed forest.

we want to make it easier for our customers to identify these products on the shelf. This year, for example, we continued to increase the number of stationery products made from recycled materials, with the introduction of products including new Core Stationery for Back to School. Our Corporate Responsibility team continue to work closely with our buyers to look at opportunities to expand our recycled product range further. The range of products supporting charity also continues to grow and is covered under Community.

ENVIRONMENT

WHSmith is committed to reducing the impact our business has on the environment, recognising that this is an important issue for our staff and customers and also that responsible environmental management also makes good business sense.

Environmental management

Our approach to managing our environmental impacts is governed by our environmental management system (EMS), based on the principles of the internationally-recognised ISO14001 scheme. This year, we carried out a full review of the EMS, looking at our key environmental impacts, the way we set objectives and targets and how we monitor performance.

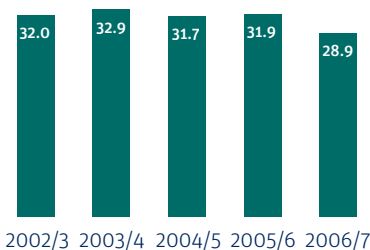
Energy and emissions

We have continued to reduce energy consumption across the business in line with our targets. In September 2004, we set a target to reduce energy consumption by 5 per cent per square foot by August 2008. We have exceeded this target, delivering a 9 per cent reduction in energy consumption during the period.

This year we ran a SWITCH IT OFF! campaign across the business to promote awareness of environmental best practice to deliver reductions in energy consumption and waste. We also completed the rollout of Automated Meter Readers (AMRs) across our High Street stores, allowing us to monitor, locally or centrally, the energy consumption of an individual store throughout the day and take prompt action to address any energy wastage.

ENERGY CONSUMPTION*

KWh per square foot



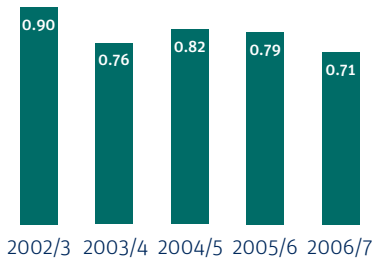
* Data from previous years re-stated based on more accurate square footage data.

Transport

Further refinements to our ideal delivery frequency schedule, taking account of how full a vehicle is before making a delivery, and the introduction of double deck trailers on trunk routes, have enabled us to deliver further improvements in fuel efficiency. In order to further reduce emissions, we are upgrading our fleet with cleaner and more fuel-efficient vehicles and trialling bio-diesel in some vehicles. We will be closely monitoring the efficiency and environmental impact of this trial.

CARBON DIOXIDE EMISSIONS PER PACKAGE MOVED

Carbon Dioxide emissions (kg)



Reducing waste

The majority of the waste generated by our business is cardboard, plastic shrink wrap and damaged stock. During the year, we have increased the number of stores recycling their waste, however we have more to do to increase the percentage of waste which is recycled and this will be our focus in the year ahead.

We have been working hard in recent years to reduce the environmental impact of our carrier bags, signing up to the British Retail Consortium's commitment to reduce the environmental impact of our carrier bags by 25 per cent by 2008, with further reductions by 2010.

The new bag designs we introduced in 2006 have delivered a 28 per cent reduction in the amount of plastic used. We also launched a scheme to work with our customers to reduce carrier bag use in partnership with the Woodland Trust, the UK's leading woodland conservation charity. Every time a customer chooses not to take a carrier bag we make a donation to support the Woodland Trust's work. Our target is to fund the planting of 10,000 trees by the end of 2008.



Registered charity number: 294344

Our in-store recycling schemes continue to be well supported by our customers. This year, as part of the Woodland Trust Christmas Card Recycling Scheme, our customers helped to recycle almost 93m cards, and also gave further support to Tommy's, the baby charity, through inkjet cartridge recycling – this year 31 per cent of the own-brand inkjet cartridges sold were recycled, up from 18 per cent last year.

WORKPLACE

Attracting and retaining the best employees is crucial to the success of our business. We aim to provide all our staff with suitable training and the opportunity to develop their career. We also aim to be clear about what we expect of our staff and that everybody understands our business across all our locations.

Living our values

In 2004 we adopted four key business values: Customer Focus, Drive for Results, Value Our People and Accountability. Our head office Values In Practice or 'VIP' scheme, launched in 2004, is an opportunity for any member of staff to recognise colleagues who set a leading example of demonstrating the values. The scheme continues to be popular, with over 100 head office staff being recognised last year. We also celebrate the successes and achievements of our store staff, with awards such as "Most Improved Store" and "Store Manager of the Year" presented at an annual conference.

Training and developing our staff

We have continued to strengthen our training and development support to ensure all employees, whether in head office, stores or distribution centres, can access the appropriate development tools.

This year saw the launch of a new Training and Development Intranet site, giving our staff the tools they need to take an active role in their own career progression. Within the store environment, our Supervisor and Manager Development programmes continue to deliver excellent results, creating a pipeline of talent to fulfil these key roles and giving staff the opportunity to progress through the business. This year, we have increased the reach of both of these programmes by over 20 per cent, with more than two thirds of delegates promoted upon completion of the courses.

Maintaining a safe and healthy working environment

The business also has a properly constituted Health and Safety Committee that comprises employee representatives, management, trade union representatives and professional safety advisers. Key safety performance indicators are closely monitored with trends, performance and recommendations reported to the Board.

Accidents and Injuries

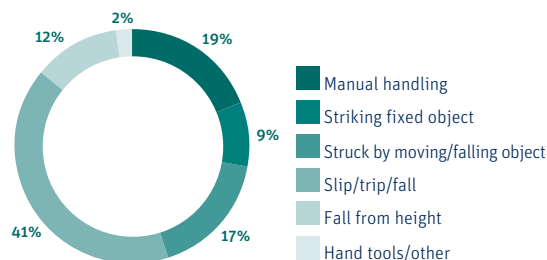
	2007	2006	2005
Major injuries	16	22	22
Injuries resulting in over 3 days' absence from work	53	48	57
ALL RIDDORS*	69	70	79

* Accidents reportable under the Reporting of Injuries, Diseases and Dangerous Occurrence Regulations.

This year, the total number of reportable accidents reduced by 1 per cent, while the number of major accidents reduced by 27 per cent. This will continue to be an area for focus in the coming year. Over 60 per cent of accidents are due to slips, trips and manual handling. During the year over 1,000 managers have been trained with a particular emphasis on these two areas, so they can train their staff.

This year we took our focus on employee health to a new area with the launch of the WHSmith Healthy Living Campaign, designed to give head office staff opportunities for a healthier way of life. The campaign included personal health screening, clinics to help give up smoking and fitness classes. The campaign proved popular with our staff and we will look at further similar initiatives in the future.

ACCIDENTS BY TYPE 1 SEPT 2006 – 31 AUG 2007



Making our stores accessible for all

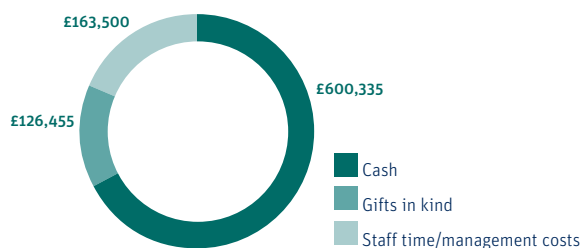
The business is continuing to work towards improving the services it provides to disabled customers, in compliance with the Disability Discrimination Act (DDA). This includes a rolling programme of capital improvements such as installations of customer service lifts, automatic doors and hearing loops; and ongoing training of store staff. We continue to subscribe to the website service operated by Direct Enquiries that provides information on the specific facilities at each of our stores and enables us to review feedback on the quality of service. We are also members of the Employers Forum for Disability.

COMMUNITY

With over 16,000 staff at more than 700 UK locations, WHSmith plays an important role in many communities. We encourage our employees to be involved within their local area, with our community investment focusing on education and life-long learning.

As members of the Per Cent Club, we set an annual target to invest at least one per cent of our pre-tax profits in support of charities and community projects. The chart below gives a breakdown of our community contributions, using the London Benchmarking Group reporting model to calculate our investment.

WHSMITH COMMUNITY INVESTMENT 2006/07



Supporting education in partnership with WHSmith Charitable Trust

This year, we supported two major education projects: the **National Literacy Trust Summer Read** developed to encourage children to keep reading during the long Summer holidays and this year reaching 3,500 children in 17 locations around the UK; and a schools programme with **Ty Newydd** – the National Writers Centre for Wales – enabling around 1,000 local school children to work alongside some of Wales' best known writers to give them the time, space and confidence to develop their creative writing. Further information on both projects is available in our Corporate Responsibility Report.

Getting involved in local communities around the UK

The WHSmith Community Awards were launched in 2006 and are our way of recognising the contribution teams throughout the business have made to local charities and good causes across the UK.

This year 20 teams received awards of a £500 donation for their charity or school, with Gold, Silver and Bronze prizes for the three teams who made a particularly special contribution. Entries were up by 50 per cent on last year, indicating that this initiative is helping to raise the profile of community involvement within the Group.

Our Glasgow Central Travel store was awarded the Gold award for their work with the Erskine Hospital, which provides nursing and medical care for veterans of the British Armed Forces. The Glasgow store team helped out by reading to patients and providing entertainment at Burns Suppers and at Christmas time.

Products to promote and support charity and education

For many years, WHSmith has been supporting good causes through its charity Christmas card range. This year, our charity Christmas cards raised over £140,000 for five charities chosen by our staff. Our popular 'Adopt a Box' range gives customers the opportunity to support a specific charity, for example the care and protection of an endangered animal or contributing to the funds required to build a school in Africa. This range raised over £130,000 for our partner charities and also raised consumer awareness of the work of these organisations.

WHSmith's support of the National Lottery reached a milestone this year, with ticket sales raising over £17m for National Lottery good causes. The National Lottery is currently raising money for the 2012 Olympic Games and Paralympic Games in London, as well as benefiting good causes in the arts, heritage, health, education, sport, environment, voluntary and charity sectors.

More information can be found in the CR report, available at www.whsmithplc.com/cr.



Robert Walker (Chairman), John Barton, Mike Ellis, Luke Mayhew, MT Rainey and Kate Swann were appointed directors of the Company on 26 June 2006 and Alan Stewart was appointed as a director of the Company on 21 June 2006. They were previously directors of the former listed parent company of the WH Smith Group.

BOARD COMMITTEES

Audit Committee

Mike Ellis – Chairman
John Barton
Luke Mayhew

Remuneration Committee

John Barton – Chairman
Luke Mayhew
MT Rainey
Robert Walker

Nominations Committee

Robert Walker – Chairman
John Barton
MT Rainey
Kate Swann

1. Robert Walker joined the Board of Old WH Smith as a non-executive director in January 2005 and became Chairman on 1 February 2005. He is Chairman of BCA Holdings Ltd and is also a non-executive director of Signet Group plc, Tate and Lyle plc and Williams Lea Holdings plc, where he was Chairman until 2006. He started his career at Procter & Gamble and McKinsey & Co., then spent over 20 years with PepsiCo Inc. In May 1996, he joined the Board of Severn Trent plc as a non-executive director and then served as Group Chief Executive from August 2000 until retirement in February 2005. Aged 62.

2. Kate Swann is Group Chief Executive and joined the Board of Old WH Smith in November 2003. She started her career at Tesco plc before moving to positions at Homepride Foods, Coca Cola Schweppes and Dixons Stores Group. She then worked for Homebase, ultimately as Managing Director, before becoming Managing Director of Argos in December 2000. She is a non-executive director of The British Land Company plc. Aged 42.

3. Alan Stewart is Group Finance Director and joined the Board of Old WH Smith in March 2005. He joined Thomas Cook UK Limited in 1998 as Group Treasurer and was appointed Chief Financial Officer in the same year. In 2001 he was appointed Chief Executive of Thomas Cook UK Limited and became a member of the Thomas Cook AG Board. He is a non-executive director of Games Workshop Group PLC and a trustee of the children's charity KidsOut. Aged 47.

4. John Barton is a non-executive director and Senior Independent Director and joined the Board of Old WH Smith in November 1999. He retired as Chairman of Jardine Lloyd Thompson Group plc in December 2001, having formerly been the Chief Executive of Jardine Insurance Brokers Group plc. He is Chairman of Next plc and is Deputy Chairman of Brit Insurance Holdings PLC. Aged 63.

5. Mike Ellis is a non-executive director and joined the Board of Old WH Smith in March 2005. He rejoined the Board of HBOS plc in September 2007 and will assume the role of Group Finance Director in January 2008, a position that he held previously from 2001 to 2004. Prior to this, for 14 years, he worked in a number of senior executive positions at Halifax plc (and its predecessor, Halifax Building Society) and was appointed Chief Operating Officer in 1999. Aged 56.

6. Luke Mayhew is a non-executive director and joined the Board of Old WH Smith in July 2005. He was Managing Director of John Lewis from 2000 to 2004, prior to which, from 1992 to 2000, he was Director of Research and Expansion of the John Lewis Partnership. He is Chairman of Pets at Home Group Limited and Bank Store Holdings Limited, and a non-executive director of Brambles Limited. Aged 54.

7. MT Rainey is a non-executive director and joined the Board of Old WH Smith in March 2002. In 1993 she founded Rainey Kelly Campbell Roalfe, now a top five UK advertising agency and part of the WPP group. She was Joint Chief Executive from 1993 to 2003 and retired from the position of Executive Chairman in 2005. Prior to that she held a number of senior executive positions in agencies both in the UK and the US. She is currently Founder and CEO of horsesmouth.co.uk, the new online social network for mentoring. She is also a non-executive director of Viapost Limited, as well as being a Trustee of the volunteering charity Timebank and the think tank Demos. Aged 52.

The directors of WH Smith PLC (the 'Company') present their annual report to shareholders together with the audited consolidated accounts of the Company and its subsidiaries for the year ended 31 August 2007. The purpose of the annual report is to provide information to members of the Company. The annual report contains certain forward looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results to differ from those anticipated. Nothing in this annual report should be construed as a profit forecast. The following definitions apply throughout this report unless the context requires otherwise:

'Company' means WH Smith PLC, a public limited company incorporated in England and Wales with registered number 5202036. The 'Group' means the Company and its subsidiaries and subsidiary undertakings;

'Old WH Smith' means the company formerly known as WH Smith PLC, a public limited company incorporated in England and Wales with registered number 471941 and which was the holding company of the WH Smith Group prior to the demerger;

'Smiths News' means Smiths News PLC, a public limited company incorporated in England and Wales with registered number 5195191 and which became the holding company of the WH Smith News business following the demerger;

'WH Smith Group' means Old WH Smith and its subsidiaries and subsidiary undertakings;

'WH Smith News' means the business carried on by Old WH Smith prior to the demerger and by Smiths News following the demerger of wholesaling and distributing newspapers and magazines to retailers and supplying other services to publishers and retailers; and

'WH Smith Retail business' means the business carried on by Old WH Smith prior to the demerger and by the Company following the demerger of retailing through High Street and Travel Retail outlets.

BUSINESS REVIEW

The Companies Act 1985 requires the Company to set out in this report a fair review of the business of the Group during the financial year ended 31 August 2007 including an analysis of the position of the Group at the end of the financial year, and a description of the principal risks and uncertainties facing the Group.

The information that fulfils the Business Review requirements can be found in the following sections of the Annual Report which are incorporated into this report by reference:

- Chairman's Statement on pages 2 and 3
- Chief Executive's business review on pages 4 to 13
- Financial review on pages 14 to 19

- Environmental, Social and Community matters on pages 20 to 23

Pages 25 to 27 inclusive (together with the sections of the Annual Report incorporated by reference) consist of a directors' report that has been drawn up and presented in accordance with and reliance upon applicable English law and the liabilities of the directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

PRINCIPAL ACTIVITY

The principal activity of the Group is retailing and associated activities in the UK. We are one of the UK's leading retailers of Books, Stationery, Newspapers, Magazines and Entertainment products.

COMPANY RESULTS

The profit for the financial year, before taxation, was £76m (2006: £44m) and sales fell by £41m to £1,299m, representing a decrease of 3 per cent.

DIVIDENDS

The directors recommend the payment of a final dividend for the year of 8.1p per ordinary share on 6 February 2008 to members on the Register at the close of business on 11 January 2008.

This final dividend, together with the interim dividend of 3.7p per ordinary share paid on 14 June 2007, makes a total dividend of 11.8p per ordinary share for the year ended 31 August 2007.

SHARE CAPITAL

The authorised and issued share capital of the Company, together with details of shares issued during the year, are shown in Note 30 to the Accounts.

Subject to disenfranchisement in the event of (A) non-payment of any call or other sum due and payable in respect of any share or (B) non-compliance with any statutory notice requiring the disclosure of certain information in relation to the ownership of shares, and subject to any special rights or restrictions as to voting from time to time attached to any shares, at general meetings of the Company on a show of hands every member has one vote, and on a poll, every member has one vote for each share of which he is a holder.

Subject to the provisions of the Company's Articles of Association, a holder of shares may receive a dividend in respect of his shares. The Board may deduct from any dividend or other monies payable on a share all such sums as may be due from him to the Company on account of calls or otherwise in relation to the shares.

A liquidator may with the sanction of an extraordinary resolution of the Company and any other sanction required by law (A) divide among members in specie the whole or any part of the assets of the Company, or (B) vest the whole or any part of the assets in trustees for the benefit of the members as the liquidator shall think fit, but no member

shall be compelled to accept any assets upon which there is any liability. The Board may with the authority of an ordinary resolution (A) resolve to capitalise any sum standing to the credit of any reserve account of the Company (including share premium account and capital redemption reserve) or any sum standing to the credit of the profit and loss account not required for the payment of any preferential dividend and (B) appropriate that sum as capital to the holders of ordinary shares in proportion to the nominal amount of the ordinary share capital held by them and allot shares or debentures or otherwise deal with such sum as directed by the resolution provided that the share premium account and the capital redemption reserve and any sum not available for distribution in accordance with applicable law may only be applied in paying up unissued shares to be allotted credited as fully paid up.

The Board may, in its absolute discretion and without giving any reason for it, refuse to register any transfer of any certificated share which is not fully paid up (but not so as to prevent dealings in listed shares from taking place) and on which the Company has a lien as a result of such share not being fully paid up. The Board may also refuse to register any instrument of transfer of a certificated share unless it is lodged at the registered office, or such other place as the Board may decide, for registration, accompanied by a certificate for the shares to be transferred and such other evidence as the Board may reasonably require to prove title of the intending transferor.

On 7 September 2006 the Company completed a reduction of its capital in order to create distributable reserves; and the nominal value of each ordinary share in the Company was reduced from 195p to 20p.

On 15 December 2006, the Company redeemed one redeemable preference share of £50,000 at par.

PURCHASE OF OWN SHARES

At the Annual General Meeting on 1 February 2007, authority was given for the Company to purchase, in the market, up to 18,292,155 ordinary shares of 20 pence each. The Company did not use this authority to make any purchases of its own shares during the financial year. This authority is renewable annually and approval will be sought from shareholders at the Annual General Meeting in 2008 to renew the authority for a further year.

DEMERGER

At an Extraordinary General Meeting of Old WH Smith held on 2 August 2006, shareholders approved the demerger of the WH Smith Retail business from the WH Smith Group. The demerger became effective on 31 August 2006 with the Company being admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange on 1 September 2006.

As part of the demerger, the Company paid an additional contribution of £25m to the WHSmith Pension Trust on 1 September 2006.

PENSIONS

Following extensive consultation, the Company on 2 April 2007 ceased service accruals for active members of the WHSmith Pension Trust, replacing this benefit with a defined contribution pension benefit.

SIGNIFICANT AGREEMENTS – CHANGE OF CONTROL

A change of control of the Company following a takeover bid may cause a number of agreements to which the Company or its trading subsidiary, WH Smith Retail Limited, is party, such as commercial trading contracts, banking arrangements, property lease and licence agreements to take effect, alter or terminate. In addition, the directors' service agreements and employee share plans would be similarly affected on a change of control, including in the case of the directors, compensation for loss of office. In the context of the Company as a whole, these agreements are not considered to be significant.

Details of the change of control clause contained in the service contracts of the executive directors can be found in the Remuneration Report on page 35.

COMPANY'S SHAREHOLDERS

The Company has been notified that as at the date of this report, the following shareholders own more than 3 per cent of the issued share capital of the Company:

Holder	Number	%	Nature of Holding
Standard Life Investments Limited	16,605,213	9.07	Direct/ Indirect
Silchester International Investors Limited	10,709,619	5.85	Direct
Sanderson Asset Management Limited	8,116,800	4.44	Direct
Legal & General Group PLC	5,859,261	3.20	Direct

Except for the above, the Company is not aware of any ordinary shareholders with interests of 3 per cent or more in the issued share capital of the Company.

DIRECTORS

The directors are responsible for the management of the business of the Company and may exercise all the powers of the Company subject to applicable legislation and regulation, the Company's Memorandum and Articles of Association.

The names of the directors as at the date of this report, together with biographical details, are set out on page 24. All the directors served throughout the period.

The Company's Articles of Association give a power to the Board to appoint directors and (where notice is given signed by all the other directors), remove a director from office. The Company's Articles of Association themselves may be amended by special resolution of the shareholders.

The Company's Articles of Association require that at the first three annual general meetings following the demerger, one third of the directors shall retire from office but shall be eligible for re-appointment. At each annual general meeting thereafter any director then in office who has been appointed by the Board since the previous annual general meeting or has held office for three years or more since he was appointed or last re-appointed by the Company in general meeting shall be eligible for re-appointment.

Mike Ellis and Kate Swann retire from the Board by rotation and, being eligible, offer themselves for re-appointment. The Chairman conducted a thorough review with Mike Ellis to assess his contribution to the Board and confirmed that he continues to be an effective non-executive director.

MT Rainey, who has served as a non-executive director since 2002, will step down from the Board following the Annual General Meeting to be held on 31 January 2008 at which time she will have served two three-year terms on the Board.

The interests of the directors and their immediate families in the share capital of the Company, along with details of directors' share options and awards, are contained in the remuneration report on pages 37 to 39.

At no time during the year did any of the directors have a material interest in any significant contract with the Company or any of its subsidiaries.

The Company maintains directors' and officers' liability insurance which gives appropriate cover for any legal action brought against its directors. The Company has also provided an indemnity for its directors and the Company Secretary, which is a qualifying third party indemnity provision for the purposes of section 309B of the Companies Act 1985.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

Having made the requisite enquiries, as far as each of the directors is aware, there is no relevant audit information (as defined by section 234ZA of the Companies Act 1985) of which the Company's auditors are unaware, and each of the directors has taken all steps he should have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

EMPLOYEES

The Group employs approximately 16,000 people throughout the United Kingdom and it is proud of its long history of being regarded as a responsible and respected employer.

Employees are kept well informed of the performance and objectives of the Group through personal briefings and email and the Company's open management style encourages employees to contribute to the development of the business.

The Company operates a HM Revenue & Customs Approved Save-As-You-Earn share option scheme ('Sharesave Scheme') which provides employees with the opportunity to acquire shares in the Company.

The Board believes in creating throughout the Company a culture that is free from discrimination and harassment and will not permit or tolerate discrimination in any form. The Company gives proper consideration to applications for employment when these are received from disabled people and employs disabled people whenever suitable vacancies arise. Should an employee become disabled when working for the Company, efforts are made to continue their employment and retraining is provided if necessary.

CHARITABLE AND POLITICAL DONATIONS

The Company's support for charitable causes is mainly channelled through the work of the Company's Charitable Trust. Charitable donations during the year ended 31 August 2007 totalled £76,528 (2006: £68,500). In addition, the Company facilitated the sale of charitable products which gave rise to further donations of £274,807 (2006: £334,529) and also made donations in kind with an estimated value of £126,455 (2006: £105,000). Employees are encouraged to give their time and skills for the benefit of a variety of charitable causes.

It is the Company's policy not to make political donations and no political donations or EU political expenditure were made in the year (2006: £nil).

PAYMENT POLICY FOR SUPPLIERS

The Company's policy for the payment of suppliers, which complies with the CBI Code of Practice for Buyers, is to agree the terms of payment in advance in line with normal trade practice and, provided a supplier performs in accordance with the agreement, to abide by such terms.

The Company's trade creditors figure as at the balance sheet date was equivalent to 45 days (2006: 40 days) based on average daily amounts invoiced by suppliers during the year.

GOING CONCERN

The directors consider that the Company has adequate resources to continue in operation for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the accounts.

AUDITORS

A resolution to re-appoint Deloitte & Touche LLP as auditors to the Company and to authorise the directors to determine their remuneration will be proposed at the Annual General Meeting.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held at the CBI Conference Centre, Centre Point, 103 New Oxford Street, London WC1A 1DU on 31 January 2008 at 11.30am.

The Notice of Annual General Meeting is given, together with explanatory notes, in the booklet which accompanies this report.

This report was approved by the Board on 11 October 2007.

By Order of the Board

Ian Houghton
Company Secretary
11 October 2007

The Board of the Company is committed to achieving the highest standards of corporate governance. The principal governance rules applying to UK companies listed on the London Stock Exchange are contained in the Combined Code on Corporate Governance adopted by the Financial Reporting Council in July 2003 (the 'Code'). The Board confirms that the Company has, except as described at the end of this report, applied the principles and complied with the provisions of the Code throughout the financial year ended 31 August 2007.

THE BOARD

On 11 October 2007, the Board comprised the Chairman, two executive directors and four independent non-executive directors. Short biographies of each of the directors, which illustrate their range of experience, are set out on page 24. There is a clear division of responsibility at the head of the Company; Robert Walker (Chairman) being responsible for running the Board and Kate Swann (Group Chief Executive) being responsible for implementing group strategy. John Barton has been nominated by the Board as the Senior Independent Director. The Board structure ensures that no individual or group dominates the decision-making process.

All of the non-executive directors who served during the year and up to the date of this report meet the independence criteria set out in the Code. John Barton has served on the Board for more than two three-year terms. The Chairman conducted a thorough review with John Barton to assess his independence and contribution to the Board and confirmed that he continues to be an effective independent non-executive director.

The Board met nine times during the year. The Board manages the Company through a formal schedule of matters reserved for its decision. These include overall management of the Company; approval of strategic plans including acquisitions and disposals; approval of the Company's commercial strategy and operating and capital expenditure budgets; approval of the financial statements, material agreements and non-recurring projects; treasury policy; control, audit and risk management; remuneration; and, corporate responsibility. It also delegates specific responsibilities to the Board Committees detailed below, the role and responsibilities of each Committee being set out in formal terms of reference which are available on the Company's website and from the Company Secretary on request.

All directors have access to the advice and services of the Company Secretary and may take independent professional advice at the Company's expense in the furtherance of their duties. The Board receives appropriate and timely information, Board and Committee papers normally being sent out several days before meetings take place.

All newly appointed directors receive induction training on joining the Board which is tailored to meet the needs of the individual and the need for director training is regularly assessed by the Board.

The Board carried out a formal evaluation of its performance in September 2007. Each director completed an extensive questionnaire covering Board and Committee procedures and effectiveness and their own contribution to discussions and decision making. The non-executive directors met separately to review the Chairman's performance and provided feedback to him and the Chairman reviewed the contribution of each of the directors in separate individual sessions. The results of the evaluation were reported to the Board in October 2007. The Board found this to be an open, constructive and useful exercise and the review concluded that the Board is effective.

The Company's Articles of Association require that at the first three annual general meetings following the demerger, one third of the directors shall retire from office but shall be eligible for re-appointment. At each annual general meeting thereafter, any director then in office who has been appointed by the Board since the previous annual general meeting or has held office for three years or more since he was appointed or last re-appointed by the Company in general meeting, shall be eligible for re-appointment.

BOARD COMMITTEES

Audit Committee

The Audit Committee is chaired by Mike Ellis, who has recent and relevant financial experience, and its other members are John Barton and Luke Mayhew, all of whom are independent non-executive directors. At the invitation of the Committee, the Chairman of the Board, the Finance Director, the Internal Audit Director and representatives of the external auditors regularly attend meetings. The Committee has regular private meetings with the external auditors during the year. The Committee's principal responsibilities cover internal control and risk management, internal audit, external audit (including auditor independence) and financial reporting.

The Committee met four times during the year and its activities included: a review of the preliminary announcement, Annual Report and Financial Statements, and the interim announcement and the consideration of reports from the external auditors identifying any accounting or judgemental issues requiring its attention; approval of audit plans for the external and internal auditors; considering reports from the Internal Audit Director on the results of internal audit reviews, significant findings, management action plans, and timeliness of resolution; reviewing reports on the Company's risk management process; reviewing management of fraud risk and incidences of fraud; reviewing the Company's Business Continuity Plans; and reviewing the effectiveness of the Company's whistleblowing process.

The Committee's terms of reference are available on the Company's website and from the Company Secretary on request.

Nominations Committee

The Nominations Committee is chaired by Robert Walker and its other members are John Barton, MT Rainey and Kate Swann. The Committee's principal responsibility is to ensure that appropriate procedures are in place for the nomination, selection and succession of directors and senior executives.

The Committee met once during the year as the review of the Company's succession plans was conducted by the full Board in December 2006, rather than the Committee. The Committee discussed the ongoing shape and capability of the Board.

The Committee's terms of reference are available on the Company's website and from the Company Secretary on request.

Remuneration Committee

The Remuneration Committee is chaired by John Barton and its other members are Luke Mayhew, MT Rainey and Robert Walker. At the invitation of the Committee, the Group HR Director and representatives of Mercer Limited, its external independent adviser, regularly attend meetings. The Committee met five times during the year. The Committee's principal responsibility is to determine and recommend to the Board the remuneration of executive directors and the Chairman. The Committee monitors the levels and structure of remuneration for senior management and seeks to ensure that they are designed to attract, retain and motivate the executive directors to run the Company successfully. The remuneration of the non-executive directors is determined by the Chairman and the executive directors.

The Remuneration Report is set out on pages 32 to 39 as required by the Directors' Remuneration Report Regulations 2002. The Committee's terms of reference are available on the Company's website and from the Company Secretary on request.

Attendance at Board/Committee meetings

The following table shows the number of Board and Committee meetings held during the year ended 31 August 2007 and the attendance record of individual directors.

	Board meetings	Committee meetings		
		Audit	Nominations	Remuneration
No. of meetings	9	4	1	5
Robert Walker	9	–	1	3
Kate Swann	9	–	1	–
Alan Stewart	9	–	–	–
John Barton	9	4	1	5
Mike Ellis	9	4	–	–
Luke Mayhew	8	3	–	5
MT Rainey	7	–	1	3

Robert Walker was appointed as a member of the Remuneration Committee on 2 March 2007.

The Board has met twice since 31 August 2007 and all the directors attended both meetings. In addition, the Remuneration Committee has met twice and the Audit Committee and the Nominations Committee have met once since 31 August 2007. These meetings were attended by all committee members.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board has overall responsibility for the Company's system of internal control and for reviewing its effectiveness, whilst the role of management is to implement the Board's policies on risk and control and provide assurance on compliance with these policies. Steps are being taken to embed internal control and risk management further into the operations of the business and to deal with areas of improvement which come to management's and the Board's attention. Such a system is, however, designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

i) Risk

The Board confirms that there is an ongoing process for identifying, evaluating and managing significant risks faced by the Company including those risks relating to social, environmental and ethical matters. This process was in place throughout the year under review and up to the date of approval of the Annual Report and meets the requirements of the revised guidance entitled 'Internal Control – Guidance for Directors on the Combined Code' issued in September 1999 (and revised in 2005). The Audit Committee has kept under review the effectiveness of the system of internal control and has reported regularly to the Board.

The key features of the risk management process are as follows:

- The business conducts an annual risk assessment based on identified business objectives which are reviewed and agreed by the Retail Executive Committee. Risks are categorised into strategic, operational, financial and compliance and are evaluated in respect of their potential impact and likelihood. These risk assessments are updated and reviewed quarterly by the Group and business risk committees and are reported to the Retail Executive Committee and the Audit Committee.
- A Company risk assessment is also undertaken by the internal audit function, which considers all areas of potential risk across all systems, functions and key business processes. This risk assessment together with the business risk assessment forms the basis for determining the internal audit plan. Audit reports in relation to areas reviewed are discussed and agreed with the business risk committees and Audit Committee.
- The internal audit team meets annually with senior executives in order to complete a formal certification of the effectiveness of internal controls. These reports are submitted to the business risk committees. Certificates are also provided by the risk committees to the Audit Committee, to assist the Board in conducting its annual review of internal controls in compliance with Turnbull guidance.

ii) Internal controls

a) Financial controls

The Company has an established framework of internal financial control, the effectiveness of which is regularly reviewed by the executive management and the Board. The key elements of this are as follows:

- the Board is responsible for overall Company strategy, for approving revenue and capital budgets and plans, for approving major acquisitions and disposals and for determining the financial structure of the Company including treasury and dividend policy. Monthly results, variances from plan and forecasts are reported to the Board;
- the Audit Committee assists the Board in the discharge of its duties regarding the Company's financial statements, accounting policies and the maintenance of proper internal business, operational and financial controls. The Committee provides a direct link between the Board and the external auditors through regular meetings;
- the internal audit function advises and assists business management to establish and maintain adequate financial controls and reports to the Audit Committee on the effectiveness of those controls;
- the Board has established an organisational structure with clearly defined lines of responsibility and approval controls identifying transactions requiring approval by the Board or by the Approvals Committee. The Finance Director is responsible for the functional leadership and development of the Company's finance activities;
- there is a comprehensive system for budgeting and planning and for monitoring and reporting the performance of the Company's business to the directors. Monthly results are reported against budget and prior year, and forecasts for the current financial year are regularly revised in the light of actual performance. These cover profits, cash flows, capital expenditure and balance sheets;
- the Company has established a uniform system of investment appraisal;
- executive management has defined the financial controls and procedures with which each business is required to comply. Key controls over major business risks include reviews against performance indicators and exception reporting and the business is required to prepare monthly management accounts; and
- routine reports are prepared to cover treasury activities and risks, for review by senior executives, and annual reports are prepared for the Board and Audit Committee covering treasury policies, insurance and pensions.

b) Non-financial controls

The Company has established a wide range of non-financial controls covering areas such as health and safety, environment, ethical trading, employment and business continuity, the effectiveness of which is regularly reviewed by the executive management and the Board. The key elements are as follows:

- a corporate responsibility strategy was approved by the Board, including objectives and targets to address the impacts that our activities have on the environment, workplace, marketplace and community;
- clear accountability for corporate responsibility issues has been defined at Board and operational level;
- annual updates are submitted to the Board on each aspect of corporate responsibility;
- the Board is committed to maintaining high standards of health and safety in all its business activities. These standards are set out in the Company's Health and Safety Policy which is regularly reviewed by the Board. The Risk Management team works with the business to assess health and safety risks and introduce systems to mitigate them. All notified accidents are investigated and targets are set to reduce the level of incidence;

- the Board has approved an Environmental Policy and sets environmental objectives and specific targets which are reviewed annually;
- the Board is committed to ensuring reasonable standards among its suppliers and has approved an Ethical Trading Code of Conduct setting out the standards it expects its suppliers to adopt. This policy covers health and safety, child labour, working hours, discrimination and the environment;
- the Company is committed to ensuring that its personnel meet good standards of integrity and competence. The Company's systems cover the recruitment, training and development of personnel, an appropriate division of responsibilities and the communication of Company policies and procedures throughout the organisation; and
- Business Recovery Plans exist to enable the business to continue in the event of a disaster with minimum disruption to customers.

AUDITOR INDEPENDENCE

The Board is satisfied that Deloitte & Touche LLP has adequate policies and safeguards in place to ensure that auditor objectivity and independence is maintained. The Board has also adopted a formal policy on the Company's relationship with its auditor in respect of non-audit work. The auditors may only provide such services provided that such advice does not conflict with their statutory responsibilities and ethical guidance. The Audit Committee Chairman's pre-approval is required before the Company uses non-audit services that exceed financial limits set out in the policy. The fees paid to the Auditors in respect of non-audit services are shown in Note 3 to the Accounts.

RELATIONS WITH SHAREHOLDERS

The Company recognises the importance of communicating with its shareholders to ensure that its strategy and performance is understood. This is achieved principally through the annual report and accounts and the AGM. In addition, a range of corporate information, including all Company announcements and presentations, is available to investors on the Company's website, www.whsmithplc.com.

Formal presentations are made to institutional shareholders following the announcement of the Company's full year and interim results. The Board recognises that the AGM is the principal forum for dialogue with private shareholders. All directors normally attend the AGM and are available to answer any questions that shareholders may wish to raise. The Notice of Meeting is sent to shareholders at least 20 working days before the meeting. Those shareholders who have elected to receive electronic communications receive notice of the availability of the annual report on the Company's website.

Shareholders vote on each resolution on a show of hands, unless a poll is validly called, and after each such vote the number of proxy votes received for, against, and withheld is announced. The proxy figures are made available in writing at the end of the meeting, announced to the London Stock Exchange and published on the Company's website.

The Board as a whole is kept fully informed of the views and concerns of major shareholders. The Group Chief Executive and Group Finance Director update the Board following meetings with major shareholders and analysts' briefings are circulated to the Board. When requested to do so, the Chairman and non-executive directors attend meetings with major shareholders.

COMPLIANCE WITH THE COMBINED CODE

Throughout the year ended 31 August 2007 the Company has complied with the Code, except as follows:

A.7.1 Re-appointment of directors

The Articles provide that at the first three annual general meetings following the demerger, one third of the directors shall retire from office but shall be eligible for re-appointment. This provision was included in the Articles, as a result of the demerger, to provide an even spread of director re-appointments.

The Remuneration Committee has adopted the principles of good governance relating to directors' remuneration as set out in the Combined Code on Corporate Governance published in 2003. This report complies with the Companies Act 1985, as amended by the Directors' Remuneration Report Regulations 2002 and the Listing Rules of the Financial Services Authority. Part A of the report, which is not subject to audit, sets out the Company's remuneration policy. Part B, which has been audited, provides details of the remuneration, pensions and share incentives of the directors for the year ended 31 August 2007. The report has been prepared on behalf of the Board by the Remuneration Committee.

PART A – UNAUDITED INFORMATION

Remuneration Committee

The Remuneration Committee met five times during the year. It is chaired by John Barton and its other members are Luke Mayhew, MT Rainey and Robert Walker.

The Committee's terms of reference, which are available on the Company's website and from the Company Secretary on request, set out the responsibilities of the Committee which include determining and agreeing with the Board the broad policy for the remuneration of the Chairman, executive directors and certain other senior executives; in determining such policy to take into account all factors which it deems necessary, the objective of such policy being to ensure that executive management are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company; approving the design of, and targets for, any performance-related pay schemes operated by the Company and approving the total annual payments made under such schemes; reviewing the design of all share incentive plans for approval by the Board and shareholders; ensuring that contractual terms on termination, and any payments made, are fair to the individual, and the Company, and ensuring that failure is not rewarded and that the duty to mitigate loss is fully recognised; and in consultation with the Chairman and/or Chief Executive as appropriate, determining the total individual remuneration package of each executive director and other senior executives including bonuses and share incentives.

During the year the Committee received external advice and services from its external independent adviser, Mercer Limited ('Mercer'). During the year the Committee also received advice from an independent law firm, Allen & Overy LLP who were appointed by the Company, in respect of share schemes. Mercer also provided the Company with actuarial advice in respect of the Company's pension schemes and Allen & Overy LLP also provided the Company with other legal services. Tanith Dodge, Group Human Resources Director, and Ian Houghton, Company Secretary, also materially assisted the Committee in carrying out its duties, except in relation to their own remuneration.

Remuneration policy

The Company's remuneration policy aims to encourage a performance-based culture, attract and retain high calibre executive directors and align executive directors' and shareholders' interests. In forming this policy the Committee has adopted the principles set out in Section B of the Combined Code on Corporate Governance.

The aims of the policy are achieved by providing a remuneration package, comprising salary and benefits, positioned at the median of a comparator group of 20 peer companies in retail and related sectors, pension provision and performance-related benefits. Any payments made to executive directors other than salary are not pensionable. The performance-related benefits, which consist of an annual performance bonus and long-term incentives, account for a significant proportion of total remuneration.

The table below shows the expected relative value of the executive directors' future annual remuneration package.

Name	Fixed element	Performance-related elements	
	Base salary	Annual bonus	Long-term incentives
Kate Swann	22%	33%	45%
Alan Stewart	25%	32%	43%

- Kate Swann can earn up to 150 per cent of salary for maximum performance and Alan Stewart can earn up to 130 per cent of salary for maximum performance under the Annual Bonus Plan.
- The value placed on long-term incentives assumes maximum performance and comprises the value of shares awarded under the WH Smith LTIP.
- The above table does not include the value of other benefits and employer pension contributions.

During the year under review the Committee undertook a review of senior executive long-term incentive arrangements following concerns which had been raised by some of the Company's major shareholders regarding retention of the current management team following the vesting of awards under the current Management Investment Plan. The Committee concluded that it should put in place new arrangements which would help in the continued motivation and retention of the current management team going forward. In reaching this conclusion, it took into consideration the need to provide senior executives with long-term incentive opportunities which would enable them to demonstrate their continued commitment to, and belief in, the ongoing plans for the Company by investing in ordinary shares.

To meet these goals the Committee believes that it is necessary to introduce a new Management Investment Plan and an ordinary resolution seeking shareholders' authority to do this will be proposed at the Annual

General Meeting. Further details are set out in the Notice of Annual General Meeting.

SALARY AND BENEFITS

The salaries of executive directors are reviewed annually in September. When conducting this review, the Committee takes into account a range of factors including the Company's performance, market conditions, the prevailing market rates for similar positions in a comparable group of companies, the responsibilities, individual performance and experience of each executive director and the level of salary increases awarded to employees throughout the Company. Following the review in September 2007 the executive directors received basic pay increases of 2 per cent. Executive directors also receive taxable benefits including the provision of a company car and private medical insurance. The comparator group of companies used in conducting this review was as follows:

Carpetright
Carphone Warehouse
Clinton Cards
DSG International
Game Group
Games Workshop Group
Halfords
HMV
Home Retail Group
Mothercare
My Travel Group
NEXT
Rank Group
Signet Group
Woolworths Group

The fees paid to non-executive directors are determined by the Chairman and the executive members of the Board and take into account the required time commitment and the fee payments for non-executive directors of similar organisations. Non-executive directors do not participate in any bonus or share schemes.

Annual bonus plan

For the year under review, Kate Swann had the opportunity to receive an annual bonus up to a maximum of 150 per cent of base salary and Alan Stewart had the opportunity to receive an annual bonus up to a maximum of 130 per cent of base salary. The plan is designed so that the level of bonus paid is dependent on the achievement of a profit before tax and after interest target and personal performance. No bonus is paid unless the minimum profit target is achieved.

LONG-TERM INCENTIVES

WH Smith LTIP

Under this plan, approved by shareholders of Old WH Smith in August 2006, executive directors and key senior executives may be awarded each year conditional entitlements to either ordinary shares in the Company

(in the form of nil cost options) or, in order to retain flexibility and at the Company's discretion, a cash sum linked to the value of a notional award of shares up to a value of 200 per cent of base salary. Following extensive consultation with shareholders regarding the Management Investment Plan performance targets, the Committee adopted a combination of financial and market-based measures to reward long-term sustained performance. It believes that such a combination of targets is best suited to the needs of the Company and its shareholders.

The performance conditions for awards granted in the financial year ended 31 August 2007 were as follows:

- a) the performance condition applying to one-half of the award shares is based on real growth in the adjusted earnings per share of the Company over the three years ending 31 August 2009 (the 'Performance Period') and vesting will occur on the following basis:

Annual rate of growth in Adjusted Earnings per Share of the Company (compounded annually) in excess of growth in RPI over the Performance Period	Proportion exercisable
Below 3%	Zero
3%	30%
9% or more	100%
Between the above points	Pro rata between 30% and 100%

For these purposes EPS will be determined by reference to fully diluted EPS before exceptional items, adjusted as considered appropriate by the Committee to ensure consistency.

- b) the performance condition applying to the remaining half of such an award is based on the Company's Total Shareholder Return ('TSR') performance against the FTSE All Share General Retailers sector over the Performance Period and vesting will occur on the following basis:

TSR performance ranking at end of Performance Period	Proportion exercisable
Below median	Zero
Median	30%
Upper quartile	100%
Between the above points	Pro rata between 30% and 100%

WH Smith share option schemes

The Company operates two types of share option scheme both of which were approved by shareholders of Old WH Smith in August 2006:

- a) an Executive Share Option Scheme which is used to grant options to executives up to an annual limit of 200 per cent of base salary. The performance target for options granted in the financial year ended

- 31 August 2007 is measured over a fixed three-year period and the proportion that will become exercisable increases on a straight-line basis from 40 per cent for adjusted EPS growth of RPI plus 9 per cent to 100 per cent for adjusted EPS growth of RPI plus 15 per cent. The Committee believes that EPS growth provides focus on increasing the Company's share price over the medium to long-term and is the most appropriate measure of the Company's underlying financial performance. The executive directors did not participate in this scheme in the financial year ended 31 August 2007; and
- b) a HM Revenue & Customs Approved Save-As-You-Earn share option scheme (the 'Sharesave Scheme'). The Sharesave Scheme is open to all UK employees who have completed one year's service and who enter an approved savings contract for a term of three or five years. The maximum amount which can be saved is £250 per month, the total savings at the end of the term being used to purchase shares at a price which is not less than 80 per cent of their market value at the start of the savings contract. In common with most schemes of this type, there are no performance conditions applicable to options granted under the Sharesave Scheme.

Old WH Smith Share Plans

Following the demerger of WHSmith Retail, participants in the Old WH Smith Share Plans received replacement options and awards over the Company's shares for their existing options and awards which had the same intrinsic value at the time of exchange on 13 October 2006. The related performance conditions have been adjusted to be equivalent to the performance conditions that existed prior to the demerger.

WH Smith 2004 Management Investment Plan

Participants in this plan who held Old WH Smith shares that they were required to hold to participate in the Management Investment Plan ('Investment Shares') received both Company and Smiths News shares as a result of the demerger. Executive directors were required to continue to hold both the Company and Smiths News shares whilst other participants were either required to continue to hold both the Company and Smiths News shares or sell the shares of Smiths News and purchase with the proceeds of that sale (net of taxes and dealing costs) shares in the Company by 30 November 2006. If a participant does not continue to hold the relevant Investment Shares for the duration of the performance period, a Matching Award will only be capable of vesting on a pro rata basis, and will lapse if the minimum investment amount is not retained during the performance period. Following the demerger, Matching Awards were adjusted so that for each Old WH Smith share previously subject to a Matching Award, there would be one share in the Company and one share in Smiths News subject to the adjusted Matching Award.

Following extensive consultation with shareholders, the Committee adopted a combination of financial

and market-based measures aimed at delivering enhanced returns to shareholders. It believes that such a combination of targets is best suited to the needs of the Company and its shareholders.

The original EPS performance condition required that the EPS of Old WH Smith grow by RPI plus 20 per cent per annum over the performance period for vesting at threshold performance and RPI plus 30 per cent per annum for vesting at maximum performance. The EPS of Old WH Smith for the purposes of the plan performance condition in the base year was 18.5p. This performance condition has been amended so that it relates to the performance of the Company and that, based on an assumed level of RPI for the performance period of 3 per cent per annum, the threshold EPS for the Company will be 23p and the maximum EPS will be 29p for the year ended 31 August 2007. The inflation rate during the performance period was 3.4 per cent which meant that the threshold EPS for the Company was 23.3p and the maximum EPS was 29.3p.

The original TSR performance condition measures the TSR of Old WH Smith against the TSR on a notional investment in the FTSE All Share General Retailers Index over the TSR performance period. The TSR performance condition has been amended so that at the end of the performance period the market capitalisation of the Company and Smiths News plus reinvested dividends paid over the whole of the performance period (whether paid by Old WH Smith, Smiths News or the Company) are added together to determine the percentage of Matching Awards that vest. In this way, the value of the TSR of Old WH Smith over the period up to the demerger will be added to that of the combined Smiths News and the Company for the remainder of the performance period.

Matching Awards will normally vest on 31 January 2008. To the extent that an award vests, 75 per cent will be capable of release immediately following the vesting date (31 January 2008) and 25 per cent will be capable of release one year later. Awards not released will lapse on 1 February 2010.

WH Smith 2004 L-TIP

The performance condition for awards granted in the financial year ended 31 August 2005 was based on the relative TSR of Old WH Smith over a fixed three year period compared against the FTSE All Share General Retailers sector, increasing on a straight-line basis from 40 per cent for median performance to full vesting if Old WH Smith was in the top decile. This condition has been amended so that at the end of the performance period the market capitalisation of the Company and Smiths News plus reinvested dividends paid over the whole of the performance period (whether paid by Old WH Smith, Smiths News or the Company) are added together to determine the percentage of awards that vest.

Following extensive consultation with shareholders regarding the Management Investment Plan performance

targets, the Committee adopted a combination of financial and market-based measures to reward long-term sustained performance. It believes that such a combination of targets is best suited to the needs of the Company and its shareholders. The performance conditions for awards granted in the financial year ended 31 August 2006 are the same as those performance conditions for awards granted in the financial year ended 31 August 2007 described on page 33.

WH Smith Executive Share Option Scheme 1999

In respect of all options granted up to and including November 2003, the Remuneration Committee of Old WH Smith determined that the related performance conditions were satisfied following the announcement of the Company's results on 12 October 2006. The amended performance condition for options granted after November 2003 is the same as the performance condition for options granted in the financial year ended 31 August 2007 described on page 34. The Committee believes that EPS growth provides focus on increasing the Company's share price over the medium to long-term and is the most appropriate measure of the Company's underlying financial performance.

WH Smith Group Executive Option Scheme

All outstanding options under the WH Smith Group Executive Option Scheme became exercisable from 25 August 2006 to 24 February 2007 as a result of the demerger.

WH Smith Sharesave Scheme 1999

All outstanding options under the WH Smith Sharesave Scheme 1999 became exercisable from 25 August 2006 to 24 February 2007 as a result of the demerger.

Personal shareholdings

Executive directors and senior executives are encouraged to build up and hold a significant shareholding in the Company.

Contracts of service

The contract dates and notice periods for each executive director are as follows:

	Date of contract	Notice period by Company	Notice period by director
Kate Swann	2 July 2003	1 year	9 months
Alan Stewart	3 March 2005	1 year	9 months

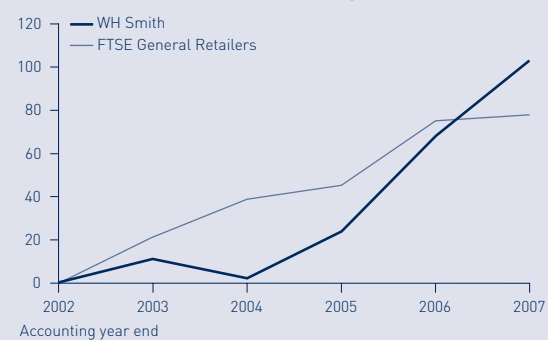
It is the Company's policy to enter into contracts of employment with executive directors which may be terminated at any time by the Company upon 12 months' notice and upon nine months' notice by the executive director. Under the Company's policy, in the event of a change of control of the Company there is a provision in each executive director's contract which provides for a payment of liquidated damages of 95 per cent of salary and benefits if the contract is terminated in breach of the

notice period. In other circumstances, the Committee believes that any question of compensation should be decided upon at the appropriate time rather than in advance so that the principle of mitigation is applied in the particular circumstances.

The Chairman, who has a letter of appointment, is appointed for an initial term of three years, which may be terminated at any time by either the Company or the Chairman.

The non-executive directors, who have letters of appointment, are appointed for an initial term of three years, subject to review thereafter.

Performance graph
Cumulative TSR Growth since 31 August 2002



- a) The graph illustrates the TSR performance on a cumulative basis (with dividends reinvested) as at the end of each of the last five financial years compared with the FTSE All Share General Retailers sector index over the same period.
- b) Old WH Smith was a member of the FTSE All Share General Retailers sector index and, as such, this sector was considered to be the most appropriate comparator group upon which a broad equity market index is calculated.

WH Smith Employees' Share Trust 1999 and the WH Smith Employee Benefit Trust

As part of the demerger the WH Smith Employees' Share Trust 1999 ('Old WH Smith Trust') was split in proportion to the Trust's obligations to the Company and Smiths News as at the date of the demerger.

The WH Smith Employee Benefit Trust is used to facilitate the acquisition of ordinary shares in the Company for the purpose of satisfying awards and options granted under the Company's share schemes including the Old WH Smith Share Plans. The Trust is a discretionary trust, the sole beneficiaries being employees (including executive directors) and former employees of the Company. The Trustee is Lloyds TSB Offshore Trust Company Limited, an independent professional trustee company based in Jersey.

Following the demerger and further purchases of 2,860,000 shares, the number of WH Smith shares held in the WH Smith Employee Benefit Trust and the Old WH Smith Trust at 31 August 2007 was 9,132,267. The accounting treatment is shown in the Reconciliation of Movements in Equity on page 45.

Pensions

For the year under review, the Company operated two types of pension scheme, a defined benefit pension scheme, WHSmith Pension Trust, and a defined contribution pension scheme, WH Smith Retirement Savings Plan. Following extensive consultation, the Company on 2 April 2007 ceased future service accruals for active members of the WHSmith Pension Trust. No executive directors are members of the WHSmith Pension Trust.

The executive directors participate in the WH Smith Retirement Savings Plan. Under this scheme an executive director may contribute up to an amount equivalent to 5 per cent of salary which is then matched by the Company. In addition, a pension supplement is also payable which may be taken as an additional pension contribution or as an addition to basic pay. For the financial year to 31 August 2007 the total contribution for Kate Swann was equivalent to 35 per cent of salary and for Alan Stewart was 30 per cent of salary.

External appointments

The Company believes there are significant benefits to the individual and the Company from executive directors accepting non-executive directorships in other organisations. Each executive director may accept up to two non-executive directorships provided they are not both appointments to companies in the FTSE 100 or are chairmanships of a FTSE 100 company. Non-executive directorships must not conflict with the interests of the Company.

The executive directors may retain fees from one of their external directorships. The fees received and retained by the executive directors in respect of their non-executive directorships are shown in the table below:

Directorship		Received £'000s	Retained £'000s
Kate Swann	The British Land Company plc	54	54
Alan Stewart	Games Workshop Group PLC	30	30

PART B – AUDITED INFORMATION

Directors' remuneration

The remuneration of the directors for the financial year ended 31 August 2007 was as follows:

	Salary/fees £'000s	Annual performance bonus £'000s	Benefits, pension supplement and other payments £'000s	Total £'000s	Year to 31 August 2006 £'000s
Robert Walker	200	–	–	200	200
Kate Swann	504	756	168	1,428	1,292
Alan Stewart	312	400	92	804	748
John Barton	49	–	–	49	49
Mike Ellis	42	–	–	42	42
Luke Mayhew	38	–	–	38	38
MT Rainey	38	–	–	38	38
Total £'000s	1,183	1,156	260	2,599	2,407

Benefits and other payments relate mainly to the provision of a company car, private medical insurance and any salary supplement paid in respect of pension entitlement.

Directors' pensions

Defined contribution scheme

The following executive directors were members of a defined contribution scheme during the year ended 31 August 2007:

	Employee contribution		Employer contribution	
	% of salary	£'000s	% of salary	£'000s
Kate Swann	5	25	38	190
Alan Stewart	5	15	5	15

- Executive directors receive a pension supplement which may be taken as an additional pension contribution or as an addition to basic pay, this payment if taken as an addition to basic pay is included in the table of Directors' remuneration under the heading Benefits, pension supplement and other payments.
- The Company contribution for Kate Swann included a payment of £165,000 in respect of the bonus sacrifice that she made in November 2006. This sum was included in the bonus payment that Kate Swann received for the year ended 31 August 2006 and was included in the table of Directors' remuneration under the heading Annual performance bonus.
- The dependants of executive directors are eligible for payment of a lump sum in the event of death-in-service equivalent to four times salary.

Long-term incentives

Share award schemes

Details of the conditional awards to acquire ordinary shares of the Company (and, in respect of the MIP, ordinary shares of Smiths News) granted to executive directors are as follows:

	Date of grant	Number of shares subject to awards at 31 August 2006	Number of shares subject to awards granted during the year	Number of shares subject to awards which vested during the year	Number of shares subject to awards at 31 August 2007	Share price at date of award (pence)	Earliest date of vesting
Kate Swann							
Conditional Award	04.11.03	71,207	–	71,207	–	352.25	12.10.06
WH Smith 2004 Management Investment Plan	03.11.04	717,778	–	–	717,778	343.00	31.01.08
WH Smith 2004 L-TIP	02.11.05	184,675	–	–	184,675	267.00*	October 2008
	09.02.06	124,911	–	–	124,911	296.00*	February 2009
WH Smith LTIP	19.10.06	–	296,450	–	296,450	350.00	October 2009
Total		1,098,571	296,450	71,207	1,323,814		
Alan Stewart							
WH Smith 2004 Management Investment Plan	26.04.05	412,179	–	–	412,179	359.00	31.01.08
WH Smith 2004 L-TIP	02.11.05	114,347	–	–	114,347	267.00*	October 2008
	09.02.06	77,342	–	–	77,342	296.00*	February 2009
WH Smith LTIP	19.10.06	–	160,612	–	160,612	350.00	October 2009
Total		603,868	160,612	–	764,480		

* See Note b) on page 38

- In respect of the Matching Awards granted under the WH Smith 2004 Management Investment Plan and Kate Swann's conditional award the number in the table shows both the number of ordinary shares in the Company and the number of ordinary shares in Smiths News subject to such awards. The share price for such awards is the middle market quotation for Old WH Smith's shares as at the date of award.

- b) As a result of the demerger, WH Smith 2004 L-TIP awards granted on 02.11.05 and 09.02.06 were exchanged for equivalent new awards over ordinary shares in the Company. The intrinsic value of the shares under the exchanged awards remained the same and as such, the share price of these awards at the date of grant has been adjusted accordingly.
- c) The number of shares subject to awards is the maximum (100 per cent) number of shares that could be received by the executive if the performance targets are fully met.
- d) The awards granted under the WH Smith 2004 Management Investment Plan will only vest to the extent that the performance targets set out on page 34 are satisfied. To the extent that an award vests, 75 per cent will be capable of release immediately following the vesting date (31 January 2008) and 25 per cent will be capable of release one year later. Awards not released will lapse on 1 February 2010.
- e) The awards granted under the WH Smith 2004 L-TIP will only vest to the extent that the performance targets as set out on page 35 are satisfied.
- f) The awards granted under the WH Smith LTIP will only vest to the extent that the performance targets as set out on page 33 are satisfied.
- g) In respect of the conditional share award held by Kate Swann which vested on 13 October 2006, the value of the 71,207 Company shares on the date of release was £255,989 (359.5p per ordinary share) and the value of the 71,207 Smiths News shares on the date of release was £89,720 (126p per ordinary share).
- h) No conditional share awards lapsed during the year.

Share option schemes

Details of the options to acquire ordinary shares of the Company granted to executive directors are as follows:

	Date of grant	Shares subject to options at 31 August 2006	Shares subject to options granted during the year	Shares subject to options which were exercised during the year	Shares subject to options at 31 August 2007	Option price (pence)	Exercise period
Kate Swann							
WH Smith Executive Share Option Scheme 1999	20.11.03	557,716	–	557,716	–	250.00	20.11.06 – 19.11.13
SAYE	29.11.06	–	3,201	–	3,201	295.20	01.02.10 – 31.07.10
Total		557,716	3,201	557,716	3,201		
Alan Stewart							
SAYE	29.11.06	–	3,201	–	3,201	295.20	01.02.10 – 31.07.10
Total		–	3,201	–	3,201		

- a) The middle market price of an ordinary share at the close of business on 31 August 2007 was 409.5p (31 August 2006; 475p).
- b) The high and low middle market prices of an ordinary share during the year were 460.75p and 333.25p respectively.
- c) Executive share options can only be exercised if the performance target is satisfied.
- d) Kate Swann was granted an unapproved executive share option over 557,716 shares on 20 November 2003. The Remuneration Committee of Old WH Smith deemed that the performance condition for options granted on or before 20 November 2003 was met for the three year period ended 31 August 2006. The option was exercised on 24 November 2006. The market price of ordinary shares in the Company on 24 November 2006 was 363.47p and the gain, which was subject to tax, was £669,373.
- e) Total gains made by executive directors on the exercise of share options under the Company's share option schemes was £669,373.
- f) Alan Stewart has not been granted any options under the Company's executive share option schemes.
- g) No options lapsed during the year.
- h) No options have been granted to or exercised by directors between 1 September 2007 and 11 October 2007.

Directors' interests in shares

The beneficial interests of the directors and their immediate families in the ordinary shares of the Company are set out below:

	31 August 2007	31 August 2006
John Barton	16,000	16,000
Mike Ellis	5,000	5,000
Luke Mayhew	8,000	8,000
MT Rainey	—	—
Alan Stewart	82,194	82,194
Kate Swann	191,391	149,438
Robert Walker	25,500	13,476

There has been no change in the directors' interests shown above between 1 September 2007 and 11 October 2007.

By Order of the Board

John Barton

Chairman of the Remuneration Committee

11 October 2007

The directors are responsible for preparing the Annual Report, Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. The directors are required by the IAS Regulation to prepare the Group financial statements under International Financial Reporting Standards ('IFRSs') as adopted by the European Union. The Group financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that IFRS financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, directors are also required to:

- (a) properly select and apply accounting policies;
- (b) present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- (c) provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The parent company financial statements are required by law to give a true and fair view of the state of affairs of the Company. In preparing these financial statements, the directors are required to:

- (a) select suitable accounting policies and then apply them consistently;
- (b) make judgements and estimates that are reasonable and prudent;
- (c) state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- (d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the parent company financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

We have audited the Group financial statements of WH Smith PLC for the year ended 31 August 2007 which comprise the Group income statement, the Group balance sheet, the Group cash flow statement, the Group statement of recognised income and expense, the reconciliation of movements in equity and the related notes 1 to 33. These Group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

We have reported separately on the individual Company financial statements of WH Smith PLC for the year ended 31 August 2007.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the Group financial statements in accordance with applicable law and (IFRSs) as adopted by the European Union are set out in the directors' responsibilities statement.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view, whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the part of the directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the directors' report is consistent with the Group financial statements. The information given in the directors' report includes that specific information presented in the Business Review and the Financial Review that is cross-referred from the directors' report. In addition we also report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report as described in the contents section and consider whether it is consistent with the audited Group financial statements.

We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any further information outside the annual report.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements and the part of the directors' remuneration report described to be audited.

OPINION

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 August 2007 and of its profit for the year then ended; and
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the part of the directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the Group financial statements.

SEPARATE OPINION IN RELATION TO IFRSs

As explained in Note 1 of the Group financial statements, the Group, in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board. In our opinion the financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 31 August 2007 and of its profit for the year then ended.

Deloitte & Touche LLP **Chartered Accountants and Registered Auditors**

London

11 October 2007

Notes: Neither an audit nor a review provides assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular whether any changes may have occurred to the financial information since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area

Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

GROUP INCOME STATEMENT

FOR THE YEAR ENDED 31 AUGUST 2007

£m	Note	2007			2006		
		Before exceptional items	Exceptional items	Total	Before exceptional items	Exceptional items	Total
Continuing operations							
Revenue	2	1,299	–	1,299	1,340	–	1,340
Operating profit	2, 3, 4	67	10	77	60	(7)	53
Investment income	11	5	–	5	2	–	2
Finance costs	12	(6)	–	(6)	(11)	–	(11)
Profit before tax		66	10	76	51	(7)	44
Income tax expense	13	(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
Earnings per share¹							
Basic	15			34.3p			18.6p
Diluted	15			33.1p			18.2p
Non GAAP measures							
Underlying earnings per share²							
Basic	15			30.3p			23.8p
Diluted	15			29.3p			23.3p
Equity dividends per share³				11.8p			9.3p
Fixed charges cover	9			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

GROUP BALANCE SHEET**AS AT 31 AUGUST 2007**

£m	Note	2007	2006
Non-current assets			
Goodwill	16	15	15
Other intangible assets	17	20	20
Property, plant and equipment	18	176	184
Deferred tax assets	25	15	29
Trade and other receivables	20	5	–
		231	248
Current assets			
Inventories		141	143
Trade and other receivables	20	59	69
Available for sale investments	19	4	–
Cash and cash equivalents	26	82	66
		286	278
Total assets		517	526
Current liabilities			
Trade and other payables	21	(217)	(214)
Current tax liabilities		(25)	(20)
Obligations under finance leases	23, 26	(3)	(3)
Bank overdrafts and other borrowings	26	(9)	(13)
Short-term provisions	24	(6)	(4)
Derivative financial liabilities	29	(1)	(1)
		(261)	(255)
Non-current liabilities			
Retirement benefit obligation	6	–	(66)
Deferred tax liabilities	25	(12)	(13)
Long-term provisions	24	(4)	(8)
Obligations under finance leases	23, 26	(6)	(8)
Other non-current liabilities	22	(7)	(8)
		(29)	(103)
Total liabilities		(290)	(358)
Total net assets		227	168
Total equity		227	168

£m	Note	2007	2006
Shareholders' equity			
Called up share capital	30	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

These financial statements were approved by the Board of Directors and authorised for issue on 11 October 2007 and were signed on its behalf by:

Kate Swann
Group Chief Executive

Alan Stewart CA (SA)
Group Finance Director

GROUP CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 AUGUST 2007

£m	Note	2007	2006
Net cash inflow from operating activities	28	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	26	64	42

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 6)	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.

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

1. ACCOUNTING POLICIES

a) Basis of preparation

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 the 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 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.

Adoption of forthcoming standards

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
IFRIC 13	Customer Loyalty Programmes
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
Amendments to IAS 1	Presentation of Financial Statements
Amendments to IAS 23	Borrowing Costs
Amendment to IAS 39	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
IFRS 7	Financial Instruments – Disclosure
IFRS 8	Operating Segments

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 IFRIC 14 and the additional disclosures on capital and financial instruments when the relevant standards come into effect for the financial year commencing 1 September 2007. The Group is currently evaluating the impact of IFRIC 14.

Historical Group Restructuring

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 WHSmith 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.
- As well as costs borne directly by the Retail Business, the results for the year ended 31 August 2006 include £0.8m 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.

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. The principal accounting policies, which have been applied consistently throughout both years, are set out below.

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 as 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.

b) Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services to customers, together with commission and fee income on concession and franchise arrangements. Revenue excludes discounts, estimated returns, VAT and other sales related taxes.

Revenue on store sales of goods and concession sales is recognised when goods are sold to the customer. Internet sales are recognised when the goods are delivered to the customer and title has passed. Revenue from gift vouchers and gift cards sold by the Group is recognised on the redemption of the gift voucher or gift card. Franchise and concession fees are recognised in revenue based on the terms of the contracts.

c) Retirement benefit costs

Payments to the WH Smith Group defined contribution pension scheme, the WH Smith Retirement Savings Plan, are recognised as an expense in the income statement as they fall due.

The cost of providing benefits for the main defined benefit scheme, WHSmith Pension Trust, is determined by the Projected Unit Credit Method, with actuarial calculations being carried out at the balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement in the consolidated statement of recognised income and expense.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation, as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from the calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

The WH Smith Group provides medical benefits to certain pensioners. The present value of estimated future benefit payments is included in the balance sheet under pension liabilities. Any differences arising from changes in assumptions in respect of the estimation of this liability are recognised in the consolidated statement of recognised income and expense.

d) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value determined at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and a reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised directly in the income statement.

Rentals payable and receivable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term. The Group has a number of lease arrangements in which the rent payable is contingent on revenue. Contingent rentals payable, based on store revenues, are accrued in line with revenues generated.

e) Intangible assets

Goodwill

Goodwill represents the excess of the fair value of purchase consideration over the net fair value of identifiable assets and liabilities acquired.

1. ACCOUNTING POLICIES (CONTINUED)**e) Intangible assets (continued)****Goodwill (continued)**

Goodwill is recognised as an asset at cost and subsequently measured at cost less accumulated impairment. For the purposes of impairment testing, goodwill is allocated to those cash generating units that have benefited from the acquisition. The carrying value of goodwill is reviewed for impairment at least annually or where there is an indication that goodwill may be impaired. If the recoverable amount of the cash generating unit is less than its carrying amount, then the impairment loss is allocated first to reduce the carrying amount of the goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit and loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1 June 1997 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Other intangible assets

The costs of acquiring and developing software that is not integral to the related hardware is capitalised separately as an intangible asset. These intangibles are stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged so as to write off the costs of assets over their estimated useful lives, using the straight-line method. The estimated lives are usually a period of up to five years. Software assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

Other intangible assets are valued at cost and amortised over their useful life unless the asset can be demonstrated to have an indefinite life.

All intangible assets are reviewed for impairment in accordance with IAS 36 'Impairment of Assets', when there are indications that the carrying value may not be recoverable.

f) Property, plant and equipment

Property, plant and equipment assets are carried at cost less accumulated depreciation and any recognised impairment in value. The carrying values of tangible fixed assets previously revalued have been retained at their book amount.

Depreciation is charged so as to write off the costs of assets, other than land, over their estimated useful lives, using the straight-line method, with the annual rates applicable to the principal categories being:

Freehold and long leasehold properties	over 20 years
Short leasehold properties	shorter of the lease period and the estimated remaining economic life
In store fixtures and fittings	up to 10 years
Equipment	8 to 10 years
Computer equipment	up to 5 years

The residual values of property, plant and equipment are re-assessed on an annual basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

At each balance sheet date, property, plant and equipment is reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of expected future pre-tax cash flows of the relevant cash generating unit or fair value, less costs to sell, if higher. Any impairment in value is charged to the income statement in the period in which it occurs.

g) Non-current assets held for resale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

h) Inventories

Inventories comprise goods held for resale and are stated at the lower of cost or net realisable value. Concession stocks are not included within stocks held by the Group. Inventories are valued using a weighted average cost method.

Cost is calculated to include, where applicable, duties, handling, transport and directly attributable costs in bringing the inventories to their present location and condition. Net realisable value is based on estimated normal selling prices less further costs expected to be incurred in selling and distribution. Cost of inventories includes the transfer from equity of any gains or losses on qualifying cash flow hedges relating to purchases.

Provisions are made for obsolescence, markdown and shrinkage.

i) Provisions

Provisions are recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date. Where the effect is material, the provision is determined by discounting the expected future cash flows at the Group's weighted average cost of capital.

Onerous contracts – property provisions

The Group's property provisions represent the present value of future net lease obligations and related costs of leasehold property (net of estimated sublease income and adjusted for certain risk factors) where the space is vacant or currently not planned to be used for ongoing operations. The periodic unwinding of the discount is treated as an imputed interest charge and is disclosed in the income statement as 'unwinding of discount on provisions'.

j) Foreign currencies

Transactions denominated in foreign currencies are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the period.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts and options (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

On consolidation the assets and liabilities of the Group's overseas operations are translated into sterling at exchange rates prevailing on the balance sheet date. Income and expense items are translated into sterling at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve.

k) Taxation

The tax expense included in the income statement comprises current and deferred tax.

Current tax is the expected tax payable based on the taxable profit for the period, using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the accounts and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

l) Financial instruments

Trade receivables

Trade receivables are measured at initial recognition, do not carry any interest and are stated at their fair value and are subsequently measured at amortised costs using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is evidence that the asset is impaired.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

1. ACCOUNTING POLICIES (CONTINUED)**l) Financial instruments (continued)****Financial liabilities and equity**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Bank borrowings

Interest bearing bank loans and overdrafts are initially measured at fair value (being proceeds received, net of direct issue costs), and are subsequently measured at amortised cost, using the effective interest rate method recorded as the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemptions and direct issue costs are accounted for on an accruals basis and taken to the income statement using the effective interest rate method and are added to the carrying value of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedge accounting

The Group uses certain derivative financial instruments to reduce its exposure to foreign exchange and interest rate movements. The Group does not hold or use derivative financial instruments for speculative purposes.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and any ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net income.

For an effective hedge of an exposure to changes in the fair value of a recognised asset or liability, changes in fair value of the hedging instrument are recognised in profit or loss at the same time that the recognised asset or liability that is being hedged is adjusted for movements in the hedged risk and that adjustment is also recognised in profit or loss in the same period.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the net profit or loss for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

m) Share schemes**WH Smith Employees' Share Trust 1999 and the WH Smith Employee Benefit Trust**

The shares held by the WH Smith Employees' Share Trust 1999 are valued at the historical cost of the shares acquired. They are deducted in arriving at shareholders' funds and are presented as another reserve in line with IAS 32 'Financial Instruments: Disclosure and Presentation'.

As a result of the demerger of Smiths News PLC from WH Smith PLC on 1 September 2006, the WH Smith Employees' Share Trust 1999 was divided into two schemes, one for the Retail business and one for the News business. This involved segregating the assets of the trust relating to each of the Retail Group and the News Group. From 1 September 2006, WH Smith PLC has accounted for the section of the trust allocated from the segregation, which is called the WH Smith Employee Benefit Trust.

Share-based payments

Employees of the Group receive part of their remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity settled transactions).

Equity settled share-based payments are measured at fair value at the date of grant. The fair value is calculated using an appropriate option pricing model. The fair value is expensed to the income statement on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

n) Available for sale financial assets

The Group classifies its investments as 'available for sale financial assets' in accordance with IAS 39. Available for sale investments are non-derivative assets. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. After initial recognition, available for sale financial assets are measured at fair value with temporary gains or losses being recognised within equity until the investment is disposed or is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

o) Dividends

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or, in the case of interim dividends, when paid.

p) Critical accounting judgements and key sources estimation uncertainty

Retirement benefit obligation

The Group recognises and discloses its retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Retirement Benefit Obligations'. The calculations include a number of judgements and estimations in respect of the expected rate of return on assets, the discount rate, inflation assumptions, the rate of increase in salaries, and life expectancy, amongst others. Changes in these assumptions can have a significant effect on the value of the retirement benefit obligation.

In order to reduce the volatility in the underlying investment performance substantially and reduce the risk of a significant increase in the obligation, a new investment policy in respect of the assets of the WHSmith Pension Trust was adopted in September 2005. This is discussed in more detail in Note 6.

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 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 4)	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

c) Balance sheet

£m	2007					2006				
	High Street	Travel	Continuing operations	Discontinued operations	Group	High Street	Travel	Continuing operations	Discontinued operations	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					2006				
	High Street	Travel	Continuing operations	Discontinued operations	Group	High Street	Travel	Continuing operations	Discontinued operations	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. Information on discontinued operations is shown in Note 5. The prior year comparatives for the segmental analysis have been amended as the directors believe this gives a more appropriate analysis of business segments.

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	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 4.

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).

£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 (Note 7)	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

4. 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 6.

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 6.

5. DISCONTINUED OPERATIONS

There were no results from discontinued operations during the current or prior year.

The cash flows of discontinued operations comprise:

£m	2007	2006
From operating activities	–	–
From investing activities	(3)	8
From financing activities	–	–
Net (decrease) / increase in cash and cash equivalents	(3)	8

6. 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 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 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 are 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.

6. RETIREMENT BENEFIT OBLIGATION (CONTINUED)

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 (Note 25)	-	20
Net retirement obligation	-	(46)

a) Defined benefit pension scheme**i) The WHSmith Pension Trust**

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

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 per cent of the Pension Trust's assets were invested in an LDI policy with a leading international institutional fund manager; and
- 6 per cent 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.

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 12). 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

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).

6. RETIREMENT BENEFIT OBLIGATION (CONTINUED)**a) Defined benefit pension scheme (continued)****i) The WHSmith Pension Trust (continued)**

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.

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					
Amount (£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 (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 (2006: £2m).

7. STAFF COSTS AND EMPLOYEES

a) Staff costs

The aggregate remuneration of employees was:

£m	2007	2006
Wages and salaries	158	166
Social security	10	11
Net pension cost	6	9
Employee share schemes	6	6
Total Group	180	192

b) Employee numbers

The average total number of employees (including executive directors) was:

Number	2007	2006
High Street	13,348	14,221
Travel	2,840	2,851
Total Retailing	16,188	17,072
Support functions	39	44
Total Group	16,227	17,116

8. OPERATING LEASE COMMITMENTS

£m	2007			2006		
	Land and buildings	Equipment and vehicles	Total	Land and buildings	Equipment and vehicles	Total
Minimum lease payments under non-cancellable operating leases are payable as follows:						
Within one year	141	–	141	124	–	124
Within two to five years	434	–	434	372	1	373
In more than five years	308	–	308	335	–	335
	883	–	883	831	1	832

The Group leases various properties and plant and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

	2007					2006
	Annual net lease commitment			Future cumulative net lease commitment	Average lease term	Annual net lease commitment
	Land and buildings £m	Equipment and vehicles £m	Total commitment £m	£m	(years)	£m
High Street	87	–	87	677	8	86
Travel	55	–	55	209	4	37
Total Retailing	142	–	142	886	6	123
Support functions	1	–	1	2	2	1
Property sublet to third parties	6	–	6	30	5	7
Gross rental commitment	149	–	149	918	6	131
Less – external rent receivable	(6)	–	(6)	(22)	3	(7)
– internal rent receivable	(2)	–	(2)	(14)	–	(1)
Total continuing operations	141	–	141	882	6	123
USA Travel Retail	1	–	1	5	3	2
Less – external rent receivable	(1)	–	(1)	(4)	3	(1)
Total discontinued operations	–	–	–	1	1	1
Total	141	–	141	883	6	124

- a) High Street Retail lease commitments include internal rent of £2m (2006: £2m) relating to those properties which are owned by the Group.
- b) External rent receivable relates to properties let by the Group to third parties. Of the total external rent receivable, £1m (2006: £1m) related to USA Travel Retail which sublet retail space in airports where it operated a master contract and £6m (2006: £7m) represents income on subletting other surplus Group property.
- c) Potential liabilities (not included above) that could crystallise under previous assignments of leases where the liability would revert to the Group if the lessee defaulted are estimated at £14m (2006: £18m) per year with a future cumulative rental commitment of approximately £76m (2006: £102m), and an average lease term of approximately six years (2006: seven years) (see Note 27).
- d) For those leases that are turnover-related leases, the annual net lease commitment is calculated using the minimum lease liability, these relate to Travel stores.

9. FIXED CHARGES COVER

£m	2007	2006
Net finance charges	1	9
Net operating lease rentals	149	148
Total fixed charges	150	157
Profit before tax and exceptional items	66	51
Profit before tax, exceptional items and fixed charges	216	208
Fixed charges cover – times	1.4x	1.3x

10. SEGMENTAL ANALYSIS OF OPERATING ASSETS EMPLOYED

	Operating assets as at 31 August 2007 £m	Return on capital employed %	ROCE % after capitalised net operating leases including internal rent %	Operating assets as at 31 August 2006 £m	Return on capital employed %	ROCE % after capitalised net operating leases including internal rent %
Continuing operations:						
High Street	160	28%	13%	180	23%	13%
Travel	33	109%	24%	21	148%	47%
Total Retailing	193	41%	16%	201	36%	18%
Freehold property	14			14		
Support functions	(33)			(32)		
Provisions for liabilities and charges	(6)			(7)		
Operating assets employed continuing operations	168	40%	15%	176	34%	17%
Discontinued operations:						
USA Travel Retail	(1)			1		
Provisions for liabilities and charges	(4)			(5)		
Operating assets employed discontinued operations	(5)			(4)		
Total operating assets employed	163	41%	15%	172	35%	17%
Net funds	64			42		
Net assets excluding pension obligation	227			214		
Net retirement obligation continuing operations	–			(46)		
Total net assets	227			168		

- a) Return on capital employed is calculated as the operating profit before exceptional items as a percentage of operating capital employed.
- b) Return on capital employed after capitalised net operating leases including internal rent is calculated as the adjusted profit as a percentage of operating assets after capitalising operating leases. Adjusted profit is stated after adding back the annual net rent and charging depreciation on the value of capitalised leases. The value of capitalised operating leases is based on the net present value of future rent commitments.

11. INVESTMENT INCOME

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

12. FINANCE COSTS

£m	2007	2006
Interest payable on bank loans and overdrafts	1	6
Net charge on pension schemes (Note 6)	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

13. INCOME TAX EXPENSE

£m	2007	2006
Tax on profit before exceptional items	23	4
<i>Standard rate of UK corporation tax 30%</i>		
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
<i>Effective tax rate on continuing activities before exceptional items</i>	<i>20%</i>	<i>20%</i>

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

14. 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.

15. 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

Millions	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

16. GOODWILL

	£m
Cost	
At 1 September 2005; at 31 August 2006; and at 31 August 2007	15
Accumulated impairment	
At 1 September 2005; at 31 August 2006; and at 31 August 2007	–
Net book value at 31 August 2006 and at 31 August 2007	15

The carrying value of goodwill is allocated to the segmental businesses as follows:

£m	2007	2006
High Street	10	10
Travel	5	5
	15	15

Cash generating units are comprised of the group of retail stores purchased on acquisitions.

In undertaking reviews for impairments, the recoverable amount of the cash generating units have been determined based on value in use calculations. These calculations are based on budgets prepared by management for a one year period, and projections over a further 15 years. The growth rates used are linked to RPI – a rate of between 2.25 per cent and 2.5 per cent. A discount rate of 10 per cent has been applied to the cash flows.

17. OTHER INTANGIBLE ASSETS

Other intangible assets comprise capitalised software costs that are not deemed to be an integral part of the related hardware (which is classified within property, plant and equipment) and certain tenancy rights.

The amortisation period for capitalised software costs is over a maximum period of five years. Other intangible assets are considered to have an indefinite life and therefore no amortisation has been charged.

A long-term receivable of £5m has been reclassified to other intangible assets as at 1 September 2005.

	£m
Cost	
At 1 September 2006	32
Additions	6
At 31 August 2007	38
Accumulated amortisation	
At 1 September 2006	12
Amortisation charge	5
Impairment charge	1
At 31 August 2007	18
Net book value at 31 August 2007	20
Cost	
At 1 September 2005	27
Additions	5
At 31 August 2006	32
Accumulated amortisation	
At 1 September 2005	8
Amortisation charge	4
At 31 August 2006	12
Net book value at 31 August 2006	20

18. PROPERTY, PLANT AND EQUIPMENT

£m	Land & Buildings			Fixtures & fittings	Equipment & vehicles	Total
	Freehold properties	Long-term leasehold	Short-term leasehold			
Cost or valuation:						
At 1 September 2006	22	1	135	130	83	371
Additions	1	–	8	8	10	27
Disposals	(1)	(1)	(12)	(1)	(3)	(18)
At 31 August 2007	22	–	131	137	90	380
Accumulated depreciation:						
At 1 September 2006	8	1	72	66	40	187
Depreciation charge	1	–	8	13	11	33
Impairment charge	–	–	–	1	1	2
Disposals	(1)	(1)	(12)	(1)	(3)	(18)
At 31 August 2007	8	–	68	79	49	204
Net book value at 31 August 2007	14	–	63	58	41	176
Cost or valuation:						
At 1 September 2005	26	1	158	164	89	438
Additions	–	–	6	9	9	24
Disposals	(4)	–	(29)	(43)	(15)	(91)
At 31 August 2006	22	1	135	130	83	371
Accumulated depreciation:						
At 1 September 2005	8	1	94	96	42	241
Depreciation charge	1	–	8	10	11	30
Impairment charge	–	–	1	1	1	3
Disposals	(1)	–	(31)	(41)	(14)	(87)
At 31 August 2006	8	1	72	66	40	187
Net book value at 31 August 2006	14	–	63	64	43	184

The net book value of finance leases contained within these balances is £10m at 31 August 2007 (2006: £12m).

19. AVAILABLE FOR SALE INVESTMENTS

£m	2007	2006
Fair value	4	–

Available for sale investments are held within current assets.

The investments included above represent the Group's holding of shares in Smiths News PLC. These shares are held to satisfy the Group's obligation under the 2004 Management Incentive Plan. They have no fixed maturity or coupon rate. The fair values of the shares are based on quoted market prices with temporary gains or losses recognised within equity.

There were no disposals or impairment provisions on available for sale financial assets during the year.

20. TRADE AND OTHER RECEIVABLES

£m	2007	2006
Current debtors		
Trade debtors	21	16
Other debtors	18	32
Prepayments and accrued income	20	21
	59	69
Non-current debtors		
Prepayments and accrued income	5	–
Total trade and other receivables	64	69

No interest is charged on the receivables balance. An allowance has been made for estimated irrecoverable amounts from the sale of goods at 31 August 2007 of £2m (2006: £1m). This allowance has been determined by reference to past default experience. The directors consider that the carrying amount of trade and other receivables approximates their fair value.

A long-term receivable of £5m has been reclassified to other intangible assets as at 1 September 2005.

Credit Risk

The Group's principal financial assets are bank balances and cash, and trade and other receivables.

The Group's credit risk is primarily attributable to its trade and other receivables. The amounts included in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on liquid funds and derivative financial instruments is considered to be low, as the Board approved Group Treasury policy limits the value that can be placed with each approved counterparty to minimise the risk of loss. These approved counterparties have a combination of short-term credit ratings of P-1/A-1 and long-term ratings of A1/A+ or better.

The Group has no significant concentration of credit risk, with the exposure spread over a large number of counterparties and customers.

21. TRADE AND OTHER PAYABLES – CURRENT

£m	2007	2006
Trade payables	87	84
Other tax and social security	20	18
Other creditors	57	65
Accruals and deferred income	53	47
	217	214

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 45 days (2006: 40 days). The directors consider that the carrying amount of trade payables approximates to their fair value.

22. OTHER NON-CURRENT LIABILITIES

£m	2007	2006
Other creditors	7	8

23. OBLIGATIONS UNDER FINANCE LEASES

	2007		2006	
£m	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Amount payable under finance leases:				
Within one year	4	3	4	3
In the second to fifth years inclusive	7	6	9	8
After five years	–	–	–	–
Total	11	9	13	11
Less: future finance charges	(2)	–	(2)	–
Present value of lease obligations	9	9	11	11
Less: amount due for settlement within 12 months (shown under current liabilities)	(3)	(3)	(3)	(3)
Amount due for settlement after 12 months	6	6	8	8

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is three to four years. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in sterling.

The fair value of the Group's lease obligations approximates their carrying amount.

24. PROVISIONS

£m	Property provision	Disposal provision	Total
Gross provision:			
At 1 September 2006	9	5	14
Utilised in year	(2)	(1)	(3)
At 31 August 2007	7	4	11
Discount:			
At 1 September 2006	(2)	–	(2)
Unwinding of discount utilisation	1	–	1
At 31 August 2007	(1)	–	(1)
Net book value at 31 August 2007	6	4	10

£m	Property provision	Disposal provision	Total
Gross provision:			
At 1 September 2005	13	7	20
Charged to income statement	(1)	–	(1)
Utilised in year	(3)	(2)	(5)
At 31 August 2006	9	5	14
Discount:			
At 1 September 2005	(4)	–	(4)
Unwinding of discount utilisation	2	–	2
At 31 August 2006	(2)	–	(2)
Net book value at 31 August 2006	7	5	12

Total provisions are split between current and non-current liabilities as follows:

£m	2007	2006
Included in current liabilities	6	4
Included in non-current liabilities	4	8
	10	12

The non-trading property provision is the estimated future cost of the Group's onerous leases based on known and estimated rental subleases. The costs include provision for required dilapidation costs and any anticipated future rental shortfalls. This provision has been discounted at 10 per cent, and this discount will be unwound over the life of the leases.

The disposal provisions arose from commitments in respect of the disposal of the USA Travel businesses. The provisions will be predominantly utilised over the next few years.

25. DEFERRED TAX

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period.

£m	Accelerated tax depreciation	Property provision	Lease incentives	Share-based payments	Retirement benefit obligations	Total
At 1 September 2006	(13)	2	2	3	22	16
Charged to income	–	–	–	4	(5)	(1)
Charged to equity	–	–	–	–	(13)	(13)
Restatement of deferred tax closing balances to 28%	1	–	–	–	–	1
At 31 August 2007	(12)	2	2	7	4	3
At 1 September 2005	(14)	2	2	2	32	24
Charged to income	(1)	–	–	1	(15)	(15)
Charged to equity	–	–	–	–	5	5
Other movements	2	–	–	–	–	2
At 31 August 2006	(13)	2	2	3	22	16

The Group has unused tax losses at 31 August 2007 of £nil available for offset against future profits (2006: £5m). A deferred tax asset of £nil has been recognised at 31 August 2007 to reflect these losses (2006: £2m) and a further deferred tax asset of £nil has been recognised at 31 August 2007 to reflect the deferred tax asset relating to the gross pension deficit (see Note 6) (2006: £20m).

The rate of corporation tax will change from 30 per cent to 28 per cent from 1 April 2008. As deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the periods of reversal, we have restated all deferred tax closing balances using a rate of 28 per cent. The change of rate in the year decreased the net deferred tax liability by £1m (2006: £nil).

Certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances, after offset, for financial reporting purposes.

£m	2007	2006
Deferred tax liabilities (non-current liabilities)	(12)	(13)
Deferred tax assets	15	29
	3	16

26. 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.

27. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

£m	2007	2006
Bank and other loans guaranteed	5	6

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 with Smiths News PLC, 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 £5m). The Group's 65 per cent share of these leases has an estimated future rental commitment at 31 August 2007 of £76m (2006: £102m).

Contracts placed for future capital expenditure approved by the directors but not provided for in this combined financial information amount to £nil (2006: £5m).

28. 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 inflow from operating activities	83	82

29. DERIVATIVE FINANCIAL INSTRUMENTS

Currency derivatives

The Group uses forward foreign exchange contracts and currency options to hedge significant future transactions and cash flows denominated in currencies other than pounds sterling. The hedging instruments have been used to hedge purchases in US dollars. It is the Group's policy that no speculative trading in financial instruments shall be undertaken.

At 31 August 2007, the total notional amount of outstanding forward foreign exchange contracts to which the Group has committed is US\$69m (2006: US\$50m). At 31 August 2007, the Group had no outstanding options (2006: US\$25m). These instruments will be used to hedge cash flows occurring within two years of the balance sheet date.

Losses totalling £2m (2006: £1m) have been transferred to both the income statement and inventories in respect of contracts that matured during the year ended 31 August 2007.

At 31 August 2007, the fair value loss on the Group's currency derivatives that are designated and effective as cash flow hedges amounts to £1m (2006: £2m).

The movement in derivative financial instruments recognised on the balance sheet is shown below:

	£m
Balance at 31 August 2005	–
Adoption of IAS 39	1
Balance at 1 September 2005	1
Movement	(2)
Balance at 31 August 2006	(1)
Movement	–
Balance at 31 August 2007	(1)

Changes in the fair value of non-hedging currency derivatives amounting to £nil (2006: £nil) have been charged to income in the year ended 31 August 2007.

30. CALLED UP SHARE CAPITAL**a) Authorised**

	2007		2006	
	Number of shares (millions)	Nominal value £m	Number of shares (millions)	Nominal value £m
Equity:				
Ordinary shares of £0.20 (2006: £1.95 each)	300	60	300	585
Redeemable preference share of £50,000 each	–	–	–	–
Total	300	60	300	585

b) Allotted and fully paid

	2007		2006	
	Number of shares (millions)	Nominal value £m	Number of shares (millions)	Nominal value £m
Equity:				
Ordinary shares of £0.20 (2006: £1.95 each)	183	37	183	357
Redeemable preference share of £50,000 each	–	–	–	–
Total	183	37	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. Seventy-six 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 one redeemable preference share of £50,000, of which 40 ordinary shares and the redeemable preference share were issued and fully 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 £320m of distributable reserves.

On 15 December 2006, the Company redeemed the redeemable preference share of £50,000 at par.

The holders of ordinary shares are entitled to receive dividends as declared from time-to-time and are entitled to one vote per share at the meetings of the Company.

31. SHARE-BASED PAYMENTS

Summary of movements in awards and options

Number of shares	Sharesave Schemes	Executive Share Option Schemes	MIP	LTIPs	Share award	Deferred bonus plan	Total
Balance at 1 September 2006	281,655	8,185,035	2,640,400	1,489,841	71,207	–	12,668,138
Options and awards granted	930,487	1,403,506	–	927,465	–	–	3,261,458
Options and awards exercised	(20,831)	(3,623,677)	–	–	(71,207)	–	(3,715,715)
Options and awards lapsed	(304,072)	(756,946)	(89,497)	–	–	–	(1,150,515)
Balance at 31 August 2007	887,239	5,207,918	2,550,903	2,417,306	–	–	11,063,366
Balance at 1 September 2005	3,056,586	7,069,065	2,909,860	460,299	142,415	10,319	13,648,544
Options and awards granted	–	1,549,637	–	749,986	–	–	2,299,623
Options and awards exercised	(1,447,256)	(871,489)	–	–	(71,208)	(9,143)	(2,399,096)
Options and awards lapsed	(1,327,675)	(1,666,029)	(269,460)	(118,590)	–	(1,176)	(3,382,930)
Balance at 31 August 2006	281,655	6,081,184	2,640,400	1,091,695	71,207	–	10,166,141
Rebased balance at 31 August 2006	281,655	8,185,035	2,640,400	1,489,841	71,207	–	12,668,138

Detail of movements in options and awards

Sharesave Schemes

Under the terms of the current Sharesave Scheme, approved by shareholders in 2006, the Board each year grants options to purchase ordinary shares in the Company to employees with at least one year's service who enter into a HM Revenue & Customs Approved Save-As-You-Earn (SAYE) savings contract for a term of three or five years. Options are granted at a 20 per cent discount to the market price of the shares on the day preceding the date of offer and are normally exercisable for a period of six months after completion of the SAYE contract.

As a result of the prior year demerger, all outstanding options under the old Sharesave Scheme vested and became exercisable. Further details are set out in the Remuneration Report.

Outstanding options granted under the Sharesave Schemes at 31 August 2007 are as follows:

Date of grant	Number of shares		Exercise price (pence)	Exercise period
	2007	2006		
6 June 2001 (5 year)	–	5,294	382.40	01.08.06 – 31.01.07
5 June 2002 (5 year)	–	37,766	356.80	25.08.06 – 24.02.07
4 June 2003 (3 year)	–	7,266	251.20	01.08.06 – 31.01.07
4 June 2003 (5 year)	–	42,189	251.20	25.08.06 – 24.02.07
2 June 2004 (3 year)	–	47,560	284.40	25.08.06 – 24.02.07
2 June 2004 (5 year)	–	32,842	284.40	25.08.06 – 24.02.07
1 June 2005 (3 year)	–	73,084	271.40	25.08.06 – 24.02.07
1 June 2005 (5 year)	–	35,654	271.40	25.08.06 – 24.02.07
29 November 2006 (3 year)	676,308	–	295.20	01.02.10 – 31.07.10
29 November 2006 (5 year)	210,931	–	295.20	01.02.12 – 31.07.12
	887,239	281,655		

31. SHARE-BASED PAYMENTS (CONTINUED)**Executive Share Option Schemes**

Under the terms of the current Executive Share Option Scheme, approved by shareholders in 2006, the Board may grant options to executives up to an annual limit of 200 per cent of basic annual salary. The exercise of options is conditional on the achievement of a performance target, which is determined by the Board at the time of grant. Further details are set out in the Remuneration Report.

As a result of the demerger, all outstanding options under the unapproved part of the old Executive Share Option Scheme were exchanged for new options over the Company's shares. Further details are set out in the Remuneration Report.

Outstanding options granted under the Executive Share Option Schemes as at 31 August 2007 are as follows:

Date of grant	Number of shares		Exercise price (pence)	Exercise period
	2007	2006 (rebased)		
25 February 1999	7,766	13,595	386.00	25.02.02 – 24.02.09
7 December 1999	–	169,887	281.00	07.12.02 – 06.12.09
31 October 2000	51,947	415,539	286.00	31.10.03 – 30.10.10
1 May 2001	10,899	10,899	357.00	01.05.04 – 30.04.11
1 November 2001	118,437	434,933	318.00	01.11.04 – 31.10.11
5 November 2002	124,324	785,978	263.00	05.11.05 – 04.11.12
20 November 2003	114,356	2,485,846	250.00	20.11.06 – 19.11.13
3 November 2004	1,671,300	1,789,654	247.00	03.11.07 – 02.11.14
26 April 2005	216,963	249,387	262.00	26.04.08 – 25.04.15
2 November 2005	1,592,623	1,803,357	268.00	02.11.08 – 01.11.15
20 April 2006	25,960	25,960	321.00	20.04.09 – 19.04.16
19 October 2006	1,262,587	–	340.00	19.10.09 – 18.10.16
26 April 2007	10,756	–	453.25	26.04.10 – 25.04.17
	5,207,918	8,185,035		

2004 Management Investment Plan

Under the terms of the Management Investment Plan, executive directors and key senior executives have invested their own money to buy ordinary shares in WH Smith and have been granted matching awards (in the form of nil cost options in both WH Smith PLC and Smiths News PLC) to acquire further ordinary shares in proportion to the amount they have invested. These awards will only vest and become exercisable if underlying performance targets are met.

Outstanding awards granted under the Management Investment Plan are as follows:

Date of grant	Number of WH Smith PLC and Smiths News PLC shares		Exercise price (pence)	Exercise period
	2007	2006		
3 November 2004	2,128,327	2,182,761	Nil	01.02.08 – 31.01.10
24 February 2005	–	20,506	Nil	01.02.08 – 31.01.10
26 April 2005	412,179	412,179	Nil	01.02.08 – 31.01.10
3 June 2005	10,397	24,954	Nil	01.02.08 – 31.01.10
	2,550,903	2,640,400		

To the extent that awards vest, 75 per cent will be free for release immediately following the vesting date (31 January 2008) and 25 per cent one year later. Awards not released will lapse on 1 February 2010.

LTIPs

Under the terms of the current LTIP, approved by shareholders in 2006, executive directors and key senior executives may be granted conditional awards to acquire ordinary shares in the Company (in the form of nil cost options) which will only vest and become exercisable to the extent that the related performance target is met.

As a result of the demerger, all outstanding awards under the old LTIP were exchanged for new awards over the Company's shares. Further details are set out in the Remuneration Report.

Outstanding awards granted under the LTIPs are as follows:

Date of grant	Number of shares		Exercise price (pence)	Exercise period
	2007	2006 (rebased)		
3 November 2004	501,479	501,479	Nil	Oct 2007 – 03.11.14
2 November 2005	682,389	682,389	Nil	Oct 2008 – 02.11.15
9 February 2006	305,973	305,973	Nil	Feb 2009 – 09.02.16
19 October 2006	872,465	–	Nil	Oct 2009 – 19.10.16
26 April 2007	55,000	–	Nil	Apr 2010 – 26.04.17
	2,417,306	1,489,841		

Awards will first become exercisable on the vesting date, which is the date (as soon as practicable after the announcement of WH Smith's results for the final year of the performance period) that participants receive notification of the number of award shares that have vested.

31. SHARE-BASED PAYMENTS (CONTINUED)**Fair value information**

	2007	2006
Weighted average share price at date of exercise of share options exercised during period – pence	397.01	302.98
Weighted average share price of outstanding awards at end of period – pence	155.61	176.35
Weighted average remaining contractual life at end of period – years	6	6

Share options and awards granted

The aggregate of the estimated fair value of the options and awards granted each period is:

£m	2007	2006
	5	3

The share options granted during each period have been valued using a Black-Scholes model. The inputs to the Black-Scholes model are as follows:

	2007	2006
Share price – pence	350 – 367	438
Exercise price – pence	295.2 – 340	442
Expected volatility – per cent	34.17 – 35.23	33.2
Expected life – years	3.5 – 5.5	5
Risk free rate – per cent	4.69 – 4.82	4.48
Dividend yield – per cent	2.54 – 2.66	3.13

Expected volatility was determined by calculating the historical volatility of the Group's share price over the expected life of the option.

The fair values of the MIP and LTIP awards granted were measured using a Monte Carlo simulation model. The input range into the Monte Carlo models was as follows:

	2007	2006
Share price – pence	350	416
Exercise price – pence	Nil	Nil
Expected volatility – per cent	27.0	30.0
Expected life – years	3.0	3.0
Risk free rate – per cent	4.9	4.2
Dividend yield – per cent	2.7	4.0

Expected volatility was determined by calculating the historical volatility of the Group's share price over the expected life of the option.

32. 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.

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	2007	2006
Short-term employee benefits	2,599	2,407
Post employment benefits	205	39
	2,804	2,446

Directors' transactions

There are no other transactions with directors.

33. PRINCIPAL COMPANIES

The principal companies included within the financial statements are disclosed below:

Name	Country of incorporation / registration
WH Smith PLC	England and Wales
WH Smith Retail Holdings Limited	England and Wales
WH Smith (Holdings) Limited	England and Wales
WH Smith Retail Limited	England and Wales
WH Smith Group Holdings (USA) Inc.	USA
WH Smith France S.A	France

We have audited the individual Company financial statements of WH Smith PLC for the year ended 31 August 2007 which comprise the Company balance sheet and the related notes 1 to 6. These individual Company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of WH Smith PLC for the year ended 31 August 2007 and on the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the individual Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the directors' responsibilities statement.

Our responsibility is to audit the individual Company financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the individual Company financial statements give a true and fair view and whether the individual Company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the directors' report is consistent with the individual Company financial statements. In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the annual report as described in the contents section and consider whether it is consistent with the audited individual Company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the individual Company financial statements. Our responsibilities do not extend to any further information outside the annual report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the individual Company financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the individual Company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the individual Company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the individual Company financial statements.

Opinion

In our opinion:

- the individual Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 August 2007;
- the individual Company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Deloitte & Touche LLP Chartered Accountants and Registered Auditors

London

11 October 2007

Notes: Neither an audit nor a review provides assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular whether any changes may have occurred to the financial information since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area

Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

COMPANY BALANCE SHEET**AS AT 31 AUGUST 2007**

£m	Note	2007	2006
Fixed assets			
Investments	3	357	357
Total fixed assets		357	357
Current assets		–	–
Current liabilities			
Creditors – amounts due within one year	4	(17)	–
Net current liabilities		(17)	–
Total net assets		340	357
Capital and reserves			
Called up share capital	5	37	357
Profit and loss account	6	303	–
Total equity		340	357

Approved by the Board of Directors on 11 October 2007.

Kate Swann
Group Chief Executive

Alan Stewart CA (SA)
Group Finance Director

1. ACCOUNTING POLICIES

a) Basis of preparation

The financial statements are prepared in compliance with the Companies Act 1985 and in accordance with applicable United Kingdom law and accounting standards. The financial statements are prepared under the historical cost convention. The accounting policies have been applied consistently in the current and prior year.

b) Investment in subsidiary undertakings

Investment in equity and long-term loans in subsidiary undertakings are individually valued at historical cost less provision for impairment in value.

c) Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

2. PROFIT FOR THE YEAR

The Company has not presented its own profit and loss account as permitted by Section 230 of the Companies Act 1985.

The profit for the year attributable to shareholders, which is stated on an historical cost basis, was £nil (2006: £nil). There were no other recognised gains or losses.

3. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

On 31 August 2006, the Company acquired the shares of WH Smith PLC (now renamed WHSmith Retail Holdings Limited) at a fair value of £357m.

4. CREDITORS – AMOUNTS DUE WITHIN ONE YEAR

£m	2007	2006
Amounts owed to subsidiary undertakings	17	–
	17	–

5. CALLED UP SHARE CAPITAL

a) Authorised

	2007		2006	
	Number of shares (millions)	Nominal value £m	Number of shares (millions)	Nominal value £m
Equity:				
Ordinary shares of £0.20 each (2006: £1.95 each)	300	60	300	585
Redeemable preference share of £50,000 each	–	–	–	–
Total	300	60	300	585

b) Allotted and fully paid

	2007		2006	
	Number of shares (millions)	Nominal value £m	Number of shares (millions)	Nominal value £m
Equity:				
Ordinary shares of £0.20 each (2006: £1.95 each)	183	37	183	357
Redeemable preference share of £50,000 each	–	–	–	–
Total	183	37	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 FRS 25 '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. Seventy-six 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 one redeemable preference share of £50,000, of which 40 ordinary shares and the redeemable preference share were issued and fully 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 WHSmith 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 £320m of distributable reserves.

On 15 December 2006, the Company redeemed the redeemable preference share of £50,000 at par.

The holders of ordinary shares are entitled to receive dividends as declared from time-to-time and are entitled to one vote per share at the meetings of the Company.

6. RESERVES

£m	Share capital	Profit and loss account	Total
Balance at 1 September 2006	357	–	357
Court approved capital reduction	(320)	320	–
Equity dividends paid during the period	–	(17)	(17)
Balance at 31 August 2007	37	303	340

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 ('000s)

	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.

GROUP INCOME STATEMENT

£m	12 months to				
	31 August 2007	31 August 2006	31 August 2005	31 August 2004	31 August 2003
Continuing operations					
Revenue	1,299	1,340	1,423	1,453	1,463
Group operating profit before exceptional items	67	60	47	20	70
Exceptional operating items	10	(7)	–	(92)	(12)
Group operating profit / (loss)	77	53	47	(72)	58
Net finance charges	(1)	(9)	(8)	(3)	(3)
Profit / (loss) before tax	76	44	39	(75)	55
Income tax expense	(16)	(12)	(9)	7	(20)
Profit / (loss) after tax from continuing operations	60	32	30	(68)	35
Loss from discontinued operations	–	–	(8)	(58)	(27)
Profit / (loss) for the period	60	32	22	(126)	8
Underlying earnings per share					
– Basic – continuing operations	30.3p	23.8p	16.9p	9.8p	19.3p
– Basic	30.3p	23.8p	16.9p	14.8p	22.6p
– Diluted	29.3p	23.3p	16.8p	14.8p	22.6p
Earnings per share					
Basic – continuing operations	34.3p	18.6p	16.9p	(27.9)p	14.3p
Basic	34.3p	18.6p	12.4p	(51.6)p	3.3p
Diluted	33.1p	18.2p	12.3p	(51.6)p	3.3p
Tax rate* – continuing operations	20%	20%	23%	25%	30%

* before exceptional items

Note: The 2004 and 2003 figures are sourced from the WH Smith PLC circular dated 7 July 2006.

FIVE YEAR FINANCIAL SUMMARY

CONTINUED

SEGMENTAL ANALYSIS OF GROUP REVENUE

£m	31 August 2007	31 August 2006	31 August 2005	31 August 2004	31 August 2003
High Street	961	1,021	1,112	1,152	1,172
Travel	338	319	311	301	291
Group revenue	1,299	1,340	1,423	1,453	1,463

SEGMENTAL ANALYSIS OF GROUP OPERATING PROFIT / (LOSS)

£m	31 August 2007	31 August 2006	31 August 2005	31 August 2004	31 August 2003
Continuing operations:					
High Street	44	42	37	14	65
Travel	36	31	25	20	18
Trading profit	80	73	62	34	83
Unallocated costs	(13)	(13)	(15)	(14)	(13)
Group operating profit before exceptional items	67	60	47	20	70
Exceptional items	10	(7)	–	(92)	(12)
Group operating profit / (loss)	77	53	47	(72)	58

GROUP BALANCE SHEET

£m	31 August 2007	31 August 2006	31 August 2005	31 August 2004	31 August 2003
Non-current assets					
Goodwill and other intangible assets	35	35	29	32	249
Property, plant and equipment	176	184	197	194	216
Deferred tax assets	15	29	38	48	47
Trade and other receivables	5	–	16	25	5
Total non-current assets	231	248	280	299	517
Current assets	286	278	262	285	447
Assets in disposal groups held for sale	–	–	–	247	49
Total assets	517	526	542	831	1,013
Current liabilities	(261)	(255)	(296)	(286)	(324)
Non-current liabilities					
Retirement benefit obligation	–	(66)	(60)	(146)	(152)
Other non-current liabilities	(29)	(37)	(81)	(42)	(26)
Liabilities in disposal groups held for sale	–	–	–	(37)	(25)
Total liabilities	(290)	(358)	(437)	(511)	(527)
Total net assets	227	168	105	320	486

Note: The 2004 and 2003 figures are sourced from the WH Smith PLC circular dated 7 July 2006.

GROUP CASH FLOW STATEMENT

£m	12 months to				
	31 August 2007	31 August 2006	31 August 2005	31 August 2004	31 August 2003
Cash flow from operating activities					
Generated from operating activities	78	84	(25)	18	100
Taxation received / (paid)	5	(2)	2	(5)	(25)
Cash flow from operating activities	83	82	(23)	13	75
Investing activities					
Interest received	5	2	4	1	1
Acquisitions and disposals of subsidiaries	(3)	8	212	31	–
Disposal of property, plant and equipment	2	9	2	5	27
Capital expenditure	(32)	(29)	(30)	(45)	(42)
Net cash from investing activities	(28)	(10)	188	(8)	(14)
Financing activities					
Interest paid	(2)	(7)	(6)	(4)	(4)
Dividend paid	(17)	(15)	(11)	(16)	(34)
Non-equity dividend paid	–	–	(143)	–	–
(Purchase) / issue of shares for employee share schemes	(12)	4	(12)	–	(10)
Repurchase of own shares	–	(3)	(62)	–	–
(Decrease) / increase in debt	(7)	(80)	58	(6)	(33)
Derivative cash movements	(1)	(1)	–	–	–
Other financing	–	57	(1)	(10)	22
Net cash used in financing activities	(39)	(45)	(177)	(36)	(59)
Net increase / (decrease) in cash and cash equivalents – continuing operations	19	19	(2)	(58)	(27)
Net (decrease) / increase in cash and cash equivalents – discontinued operations	(3)	8	(10)	27	29
Net increase / (decrease) in cash and cash equivalents	16	27	(12)	(31)	2

Note: The 2004 and 2003 figures are sourced from the WH Smith PLC circular dated 7 July 2006.

ANALYSIS OF NET FUNDS MOVEMENT

£m	12 months to				
	31 August 2007	31 August 2006	31 August 2005	31 August 2004	31 August 2003
Operating profit before exceptional items	67	60	47	41	78
Share-based payments	6	6	4	1	1
Profit on disposal of property, plant and equipment	(2)	(5)	–	(2)	(1)
Depreciation, amortisation and other amounts written off fixed assets	41	37	41	43	44
Movement in working capital	9	9	(8)	(30)	(11)
Net interest receivable / (payable) ¹	2	(5)	(2)	(3)	(3)
Capital expenditure	(32)	(29)	(30)	(45)	(41)
Tax paid (before receipt of tax refund)	(8)	(2)	(2)	(5)	(25)
Provisions	(2)	(3)	(6)	(5)	(4)
Free cash flow (before dividends and investment activity)	81	68	44	(5)	38
Dividends	(17)	(15)	(11)	(16)	(34)
Adjustment for pension funding	(35)	(12)	(90)	(17)	(5)
Premium on issue of shares	–	4	2	–	2
Sale and leaseback and disposal of fixed asset proceeds	2	9	2	5	27
Net disposal proceeds of subsidiaries	(3)	8	212	42	–
Tax refund and associated interest received	14	–	–	–	–
Acquisitions	–	–	–	–	(1)
Purchase of own shares	(12)	(10)	(74)	–	(10)
Return of cash to shareholders	–	–	(138)	–	–
Corporate advisory costs	–	–	(9)	–	–
Cash outflow relating to exceptional operating items	(6)	(8)	–	(13)	(2)
Cash in subsidiaries disposed / acquired	–	–	–	(11)	–
Bank fees and derivative cash movements	(1)	(1)	(2)	–	–
Net finance lease movements	(1)	–	(12)	(6)	(2)
Intercompany settlement on demerger	–	57	(8)	(10)	20
Net funds movement	22	100	(84)	(31)	33
Opening net funds / (debt)	42	(58)	26	57	24
Closing net funds / (debt)	64	42	(58)	26	57

Note: The 2004 and 2003 figures are sourced from the WH Smith PLC circular dated 7 July 2006.

¹ Excludes £1m of interest received on prior periods' tax overpayments.

COMPANY SECRETARY AND REGISTERED OFFICE

Ian Houghton, WH Smith PLC, Greenbridge Road, Swindon, Wiltshire SN3 3RX. Telephone 01793 616161.

WH Smith PLC is registered in England and Wales (Number 5202036).

COMPANY WEBSITE

This annual report and accounts together with other information can be found on the WH Smith PLC website at www.whsmithplc.com.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at the CBI Conference Centre, Centre Point, 103 New Oxford Street, London WC1A 1DU on Thursday 31 January 2008 at 11.30am. The Notice of Annual General Meeting sets out the business to be transacted. Ordinary shareholders who wish to attend the meeting should detach the Attendance Card from the Form of Proxy and present it at the registrars' desk on arrival.

FORM OF PROXY

A Form of Proxy is enclosed for those ordinary shareholders unable to attend the Annual General Meeting. To be effective it must be completed and lodged with the Company's registrars, Equiniti, by not later than 11.30am on 29 January 2008.

ELECTRONIC PROXY VOTING

You may if you wish register the appointment of a proxy for the meeting electronically, by logging onto the website www.sharevote.co.uk. Full details of the procedure are given on the website. You will need to have your Form of Proxy to hand when you log on as it has information required in the process. CREST members may appoint a proxy electronically via Equiniti (ID 7RA01).

REGISTRARS

On 1 October 2007 the Company's registrars, Lloyds TSB Registrars, changed their name to Equiniti. If you have any enquiries about your shareholding in WH Smith PLC or wish to advise of a change of address, please contact Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA (telephone 0870 600 3970). A textphone facility for shareholders with hearing difficulties is available by telephoning 0870 600 3950. In addition, Equiniti provides a range of shareholder information online at www.shareview.co.uk (to register for this service you will need your shareholder reference number which can be found on the Form of Proxy).

FINANCIAL CALENDAR

Financial year end	31 August 2007	Half-year end	29 February 2008
Results announced	11 October 2007	Interim results announced	April 2008
Annual Report posted	November 2007	Interim dividend ex-dividend date	May 2008
Interim Management Statement	November 2007	Interim dividend record date	May 2008
Final dividend ex-dividend date	9 January 2008	Interim dividend payment date	June 2008
Final dividend record date	11 January 2008	Interim Management Statement	July 2008
Christmas trading statement	January 2008	Financial year end	31 August 2008
AGM	31 January 2008	Results announced	October 2008
Final dividend payment date	6 February 2008		

The dividend dates shown above are in respect of the Company's ordinary shares of 20p.

SHARE DEALING SERVICES

The Company has arranged for Shareview Dealing, a telephone and internet share dealing service offered by Equiniti, to be made available to UK shareholders wishing to buy or sell the Company's shares. For telephone dealing call 0870 850 0852 between 8.30am and 4.30pm, Monday to Friday, and for internet dealing log on to www.shareview.co.uk/dealing. You will need your shareholder reference number shown on your share certificate.

JPMorgan Cazenove provides a postal share dealing service for private investors who wish to buy or sell the Company's shares. Further details are available from JPMorgan Cazenove, telephone 020 7155 5155.

SHAREGIFT

If you only have a small number of shares which are uneconomic to sell, you may wish to consider donating them to charity under ShareGIFT, a charity share donation scheme administered by the Orr Mackintosh Foundation. A ShareGIFT transfer form may be obtained from Equiniti. Further information about the Scheme can be found on the ShareGIFT website at www.sharegift.org.

UK CAPITAL GAINS TAX

Demerger 31 August 2006

Following the demerger of the Company on 31 August 2006, in order to calculate any chargeable gains or losses arising on the disposal of shares after 31 August 2006, the original tax base cost of your ordinary shares of 2¹³/₈₁p (adjusted if you held your shares at 24 September 2004 and 22 May 1998 to take into account the capital reorganisations of 27 September 2004 and 26 May 1998 respectively (see below)) will be apportioned between the shareholdings of ordinary shares of 20p in the Company and ordinary shares of 5p in Smiths News in the ratio of 0.69585 and 0.30415 respectively.

Capital reorganisation 27 September 2004

If you acquired your shareholding on or before 24 September 2004, in order to calculate any chargeable gains or losses arising on the disposal of shares after 24 September, the original tax base cost of your ordinary shares of 55⁵/₉p (adjusted if you held your shares as at 22 May 1998 to take into account the capital reorganisation of 26 May 1998 (see below)) will have to be apportioned between the shareholdings of ordinary shares of 2¹³/₈₁p and 'C' shares resulting from the capital reorganisation. The cost of your shareholding of ordinary shares of 2¹³/₈₁p is calculated by multiplying the original base cost of your ordinary shares of 55⁵/₉p (adjusted where necessary to take into account the capital reorganisation of 26 May 1998 referred to above) by 0.73979.

The cost of the 'C' shares is calculated by multiplying the original base cost of your ordinary shares of 55⁵/₉p (again adjusted where necessary, to take into account the capital reorganisation of 26 May 1998 referred to above) by 0.26021.

Capital reorganisation 26 May 1998

If you acquired your shareholding on or before 22 May 1998, in order to calculate any chargeable gains or losses arising on the disposal of shares after 22 May 1998, the original tax base cost of your ordinary shares of 50p will have to be apportioned between the shareholdings of ordinary shares of 55⁵/₉p and redeemable 'B' shares resulting from the capital reorganisation.

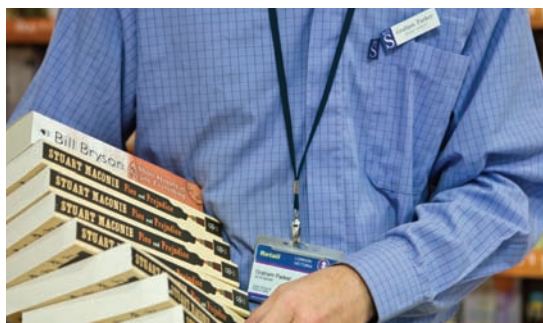
The cost of your shareholding of ordinary shares of 55⁵/₉p is calculated by multiplying the original cost of your ordinary shares of 50p by 0.90714.

The cost of the 'B' shares is calculated by multiplying the original cost of your ordinary shares of 50p by 0.09286.

MARCH 1982 VALUES

31 March 1982 base values per share:

	Arising from an original shareholding of	
	'A' ordinary shares	'B' ordinary shares
Ordinary shares of 20p	61.62p	50.92p
Smiths News PLC ordinary shares of 5p	26.93p	22.25p
Old WH Smith 'B' shares	7.94p	6.56p
Old WH Smith 'C' shares	22.42p	18.53p
Old WH Smith 5 ³ / ₄ per cent cumulative preference shares of £1 each		42.50p
Old WH Smith 5 ¹ / ₈ per cent redeemable unsecured loan stock		£33.25



The following definitions apply throughout this report unless the context requires otherwise:

'Company' means WH Smith PLC, a public limited company incorporated in England and Wales with registered number 5202036;

'Group' means the Company and its subsidiaries and subsidiary undertakings;

'Old WH Smith' means the Company formerly known as WH Smith PLC, a public limited company incorporated in England and Wales with registered number 471941 and which was the holding company of the WH Smith Group prior to the demerger;

'Smiths News' means Smiths News PLC, a public limited company incorporated in England and Wales with registered number 5195191 and which became the holding company of the WH Smith News business following the demerger;

'WH Smith Group' means Old WH Smith and its subsidiaries and subsidiary undertakings;

'WH Smith News' means the business carried on by Old WH Smith prior to the demerger and by Smiths News following the demerger of wholesaling and distributing newspapers and magazines to retailers and supplying other services to publishers and retailers; and

'WH Smith Retail business' means the business carried on by Old WH Smith prior to the demerger and by the Company following the demerger of retailing through High Street and Travel Retail outlets.

WH SMITH PLC

Greenbridge Road
Swindon, Wiltshire, SN3 3RX
United Kingdom

T 01793 616 161

F 01793 562 560

W www.whsmithplc.com

CORPORATE RESPONSIBILITY

W www.whsmithplc.com/cr

INVESTOR RELATIONS

T 020 7851 8820

W www.whsmithplc.com/ir

MEDIA RELATIONS

T 020 7851 8850

W www.whsmithplc.com/media

RECRUITMENT

W www.whsmithcareers.co.uk

HIGH STREET

Greenbridge Road
Swindon, Wiltshire, SN3 3LD
United Kingdom

T 01793 616 161

F 01793 562 560

W www.whsmith.co.uk

TRAVEL

3rd Floor, 180 Wardour Street
London, W1F 8FY
United Kingdom

T 020 7851 8800

F 020 7851 8847

W www.whsmithplc.com

WHSMITH CUSTOMER SERVICE

✉ Freepost SCE4410
Swindon, Wiltshire, SN3 3XS
United Kingdom

T 0871 770 4444

E customer.relations@whsmith.co.uk

