

17 April 2003

**WH SMITH PLC  
INTERIM RESULTS  
FOR THE SIX MONTHS TO 28 FEBRUARY 2003**

**KEY POINTS**

**Profit before tax and exceptional items up £2 million to £91 million**

**Operating profit before goodwill and exceptional items up 9% to £93 million**

- UK Retail profits up 1% to £83m
- USA Travel Retail trading losses reduced by £2m to £9m
- ASPAC Retail profits flat at £5m
- Publishing profits up 22% to £11m
- News Distribution profits, before Connect2U, up 9% to £15m

**Total sales down 2% at £1.6 billion**

- UK Retail lfl sales down 2%
- USA Travel Retail lfl sales up 4%
- ASPAC Retail lfl sales up 1%
- Publishing lfl sales up 13%
- News Distribution lfl sales up 2%

**Exceptional charge of £35 million reflecting further asset impairment in US**

**Operating profit after exceptional items flat at £56 million**

**EPS before exceptional items and goodwill amortisation flat at 26.1p**

**EPS down 23% to 11.0p**

**Strong cash generation with free cash inflow of £28 million, (£13m outflow last year)**

**Interim dividend maintained at 6.0p**

**Encouraging current trading in UK businesses**

**GROUP CHIEF EXECUTIVE'S COMMENTS**

Commenting on the results, Richard Handover, Group Chief Executive said:

*“Underlying operating profit for the group has increased by 9% demonstrating the resilience of the main UK businesses in difficult trading conditions.*

*“In UK Retail we grew profits and generated good cashflow despite disappointing Christmas sales. This reflects the strong margin and operational performance achieved in the business which we reported at the end of January.*

*“News Distribution continued its good recovery, driven by a strong magazine market, greater efficiencies resulting from the investment in SAP and the integration of Connect2U. A continued focus on delivering improved customer service to client publishers and retail customers is putting this business in a strong position for the future.*

*“Hodder Headline has had an excellent six months of sales and profit growth driven by frontlist consumer books. The recent acquisitions are trading well and are being successfully integrated.*

*“We have yet to see the anticipated upturn in our USA Travel Retail business. This business continues to experience difficult trading conditions reflecting the well publicised subdued US economy and specifically the challenging US travel market. As a result, we have written down our US assets by a further £35 million.*

*“We have closed a further 33 loss making hotel stores and following a review of our cost base have reduced our central costs by 25% on an annualised basis. However, we continue to review all our options in respect of our USA Travel Retail business, particularly in relation to hotels, and seek solutions that will benefit all our stakeholders.*

*“We are currently confident about the Group’s prospects for the rest of the year, and our cashflow remains strong. We are encouraged by current trading in the UK businesses, but are mindful of the uncertain economic outlook and resulting possible impact on consumer confidence.”*

**Enquiries:**

**WH Smith PLC**

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**OPERATIONAL REVIEW**

**UK Retail** sales fell by 3% to £842m (2002 - £868m), with like for like sales down by 2%.

Overall **UK Retail** profits were up 1% to £83m (2002 - £82m). Gross margin increased by 2 percentage points reflecting both improved margins on stationery products, through increased levels of sourcing from Asia, and an increase in sales of the high margin stationery category as a percentage of the overall sales mix. Total operating expenses grew by £5m, due to increased store occupation costs. Increases in other store costs were offset by tight central cost control and operational efficiencies. Net margins for UK Retail have increased by 0.4 percentage points to 9.9%.

**WHSmith High Street** sales declined by 3% to £700m (2002 - £720m) and by 4% on a like for like basis. Book sales reduced by 3% and news and express were down by 2%, with magazines up 4%. Entertainment sales fell by 6%, despite strong DVD sales up 87%. Stationery sales were up 1%, with the core stationery ranges growing by 6%.

Own brand and exclusive product sales increased by 3% and now represent 17% of sales.

**UK Travel Retail** sales fell by 5% to £137m (2002 - £144m), but were up 4% on a like for like basis. This difference reflects both the strategic decision to withdraw from selling phonecards and the sale of ten stores to TMR at the end of the previous financial year.

**WHSmith Online** sales were ahead by 31% and losses were reduced to £1m (2002 - £2m loss). We expect to drive further efficiencies through increased supply chain integration with the other UK Retail businesses.

Total **UK Retail** selling space is 3.3 million square feet with average selling space increasing by 1% over last year. In the first half of this year, the business has opened two new stores, including an edge of town store in Preston and a further eight edge of town stores are due to open in the next 12 months.

The implementation of Retek computer systems continues. To date, the Warehouse Management System and Sales Forecasting System have been successfully implemented. Availability of those lines where the new Sales Forecasting System is being used (approximately 40% of sales) has improved by 2 percentage points and weeks forward stock has been reduced by 15%. The final stage, the Stock Replenishment and Merchandising System, will go live in the summer.

**USA Travel Retail** sales decreased by 10% to £90m (2002 - £100m), with like for like sales up 4%.

Trading in the US continues to be difficult with ongoing weakness in the US economy and, more recently, events in the Middle East suppressing recovery.

The business incurred an operating loss in the period of £9m (2002 - £11m loss). Action has been taken to help mitigate any further losses. These include withdrawing from a further 33 loss making hotel stores (72 since September 2001), minimising capital expenditure and head office restructuring. We have implemented plans which will reduce head office costs by 25% on an annualised basis and this will remain under constant review in the light of difficult trading.

During the first half of the previous financial year a review of the carrying value of assets in the USA Travel Retail business was undertaken and an exceptional impairment charge of £27m was recognised. In arriving at this charge, assumptions were made about the rate of recovery of the US travel market, which were reasonable at the time. However, in the light of experience these assumptions have proved optimistic as trading has fallen short of our expectations. An exceptional charge of £35m has therefore been booked in the first half results to cover further impairment. The charge covers goodwill and fixed asset impairment.

**ASPAC Retail** achieved profits of £5m (2002 - £5m), with sales of £82m (2002 - £75m). Since the acquisition of Angus and Robertson and Whitcoulls, the business has continued to meet expectations. The future implementation of SAP in the Angus and Robertson business in Australia should further strengthen trading performance. Trials of the WHSmith format continue in Australia. Costs related to the SAP implementation and WHSmith trials amounted to £0.3m in the first half. In the period, a further 25% stake was acquired in Calendar Club, a seasonal calendar business taking the overall ownership to 75%. This business increased sales by £4.6m and profit by £0.2m in the first half.

**Publishing** achieved profits of £11m (2002 - £9m), with sales of £76m (2002 - £65m). Strong sales growth of 17% was achieved through an excellent release programme in the first half of the year. Notable releases to date include titles from key brand authors James Patterson and Martina Cole and strong performances from Kate Adie and Alan Titchmarsh in non-fiction. Sales to WHSmith businesses increased by 22%.

In the Hodder Headline base business, strong sales and improving gross margins were partly offset by an increase in royalty advance provisioning. The underlying cost base was also tightly controlled and improved significantly year on year as a percentage of sales.

Last year's profit performance was impacted by £1m of losses from Helicon, which was sold last year. The John Murray and Robert Gibson businesses acquired last year are being successfully integrated. In the current year these acquisitions generated sales of £4.0m and profits of £0.6m in the first half.

**WHSmith News Distribution** achieved profits of £15m (2002 - £12m) on sales of £533m (2002 - £538m). Underlying profit grew by 9% with the balance of the profit increase due to the integration of Connect2U. The reduction in overall sales is due to a decline in newspaper sales of 4% (due to "red top" discounting) and phonecards of 53%. This has been offset by an increase in sales of magazines by 5%. Comparable newspaper sales are up by 1% after adjusting for the impact of the discounting, which did not affect profitability.

Despite the decline in sales of 1%, underlying profit increased by 9%, largely due to the more buoyant magazine market and improved operational performance, notably cost reductions as we drive significant benefits from the now fully operational SAP computer systems. Connect2U is now fully integrated and incurred a £0.3m loss in the first half (2002 - £2m loss).

Gross margins improved by 0.4 percentage points (due to the mix impact of stronger magazine sales and reduced waste) and costs fell by £1m leaving overall net margins up by 0.6 percentage points.

The business is also undertaking a programme of regeneration to improve customer service and drive further efficiencies. The head office relocated to a new site in Swindon and the national accounting centre will move to a new location in Bradford in the summer. In addition, a programme of warehouse refurbishment has commenced.

## **GROUP SUMMARY**

For the Group, operating profit before exceptional items and goodwill amortisation was up by £8m or 9% to £93m (2002 - £85m).

The Group has adopted FRS17 Retirement Benefits, relating to pension accounting, for the first time this year. This has resulted in a £2m charge within interest payable compared with a restated £4m credit in the prior year. This £6m adverse movement reflects the change in the financial position of the Group's defined benefit pension schemes which had nil surplus/deficit at the start of the previous financial year, compared with a £143m deficit at 1<sup>st</sup> September 2002.

As a result, the improvement in pre-tax profit before exceptional items and goodwill amortisation was restricted to £2m at £91m (2002 - £89m).

Earnings per share before exceptional items and goodwill amortisation were 26.1 pence, flat compared with last year.

The **interim dividend** has been maintained at 6.0 pence.

The financial position of the company remains sound with net cash amounting to £31m (2002 - £29m) and total net assets before pension liabilities of £627m (2002 - £644m). Free cash inflow amounted to £28m compared with an outflow of £13m in the prior year, primarily reflecting improved working capital management (£22m) and reduced capital expenditure (£11m). This

strong cash performance is after £9m of cash contributions into the Group's pension schemes (2002 - £1m).

## **CURRENT TRADING**

In the six weeks to 12<sup>th</sup> April 2003, UK Retail like for like sales are up 3%, USA Travel Retail like for like sales are down 8%, ASPAC Retail like for like sales are down 3%, Hodder Headline sales down 6% and News Distribution sales are up 2%.

Within UK Retail, books are ahead by 7%, stationery by 4% and entertainment by 4%. Sales in the news and express category are flat. The sharp downturn in sales in the USA reflects the impact on the travel market of the Iraq war and concerns regarding SARS. This has also affected our Asian travel operations within ASPAC Retail. The decline in Hodder sales reflects the timing of returns year on year – underlying sales remain strong.

**-Ends-**

# WH Smith PLC

## Group Profit and Loss Account

For the 6 months to 28 February 2003

		6 months to		12 months to
		28 Feb 2003	28 Feb 2002	31 Aug 2002
	Note	£m	As restated £m	As restated £m
Sales	1	1,556	1,582	2,936
<b>Operating profit before exceptional items and goodwill amortisation</b>	1	<b>93</b>	85	109
Exceptional items and goodwill amortisation	1, 2	(37)	(29)	(33)
<b>Operating profit</b>		<b>56</b>	56	76
Interest	3	(2)	4	8
<b>Profit on ordinary activities before taxation</b>		<b>54</b>	60	84
Tax on profit on ordinary activities	5	(27)	(25)	(37)
<b>Profit attributable to shareholders</b>		<b>27</b>	35	47
Dividends	6	(15)	(15)	(47)
<b>Retained earnings</b>		<b>12</b>	20	-

*All results have been derived from continuing operations*

<i>Earnings per share</i>	7	<i>11.0p</i>	<i>14.2p</i>	<i>19.1p</i>
<i>Diluted earnings per share</i>	7	<i>11.0p</i>	<i>14.2p</i>	<i>19.0p</i>
<i>Adjusted earnings per share</i>	7	<i>26.1p</i>	<i>26.0p</i>	<i>32.5p</i>
<i>Dividend per share</i>	6	<i>6.0p</i>	<i>6.0p</i>	<i>19.0p</i>
<i>Net assets per share</i>		<i>196p</i>	<i>250p</i>	<i>204p</i>
<i>Net assets excluding pension liabilities per share</i>		<i>251p</i>	<i>259p</i>	<i>245p</i>
<i>Fixed charges cover – times</i>	8	<i>1.8x</i>	<i>1.8x</i>	<i>1.5x</i>
<i>Dividend cover – times</i>		<i>1.8x</i>	<i>2.3x</i>	<i>1.0x</i>
<i>Dividend cover before exceptional items and goodwill –</i>		<i>4.3x</i>	<i>4.3x</i>	<i>1.7x</i>
<i>Tax charge before exceptional items and goodwill</i>	5	<i>30%</i>	<i>28%</i>	<i>30%</i>

# WH Smith PLC

## Group Balance Sheet

As at 28 February 2003

	Note	At 28 Feb 2003 £m	At 28 Feb 2002 As restated £m	At 31 Aug 2002 As restated £m
<b>Fixed assets</b>				
Goodwill	10	228	228	240
Fixed assets	11	293	324	326
Investments	11	27	14	17
<b>Total fixed assets</b>		<b>548</b>	<b>566</b>	<b>583</b>
<b>Current assets</b>				
Stock		272	274	254
Debtors		209	190	192
Cash at bank and in hand	12	67	54	98
		<b>548</b>	<b>518</b>	<b>544</b>
<b>Creditors due within one year</b>				
Debt	12	(34)	(23)	(52)
Other		(408)	(403)	(432)
		<b>(442)</b>	<b>(426)</b>	<b>(484)</b>
<b>Net current assets</b>		<b>106</b>	<b>92</b>	<b>60</b>
<b>Total assets less current liabilities</b>		<b>654</b>	<b>658</b>	<b>643</b>
<b>Creditors due after more than one year</b>				
Debt	12	(2)	(2)	(2)
Other		-	(2)	(3)
		<b>(2)</b>	<b>(4)</b>	<b>(5)</b>
Provisions for liabilities and charges	13	(25)	(10)	(25)
<b>Net assets excluding pension liabilities</b>		<b>627</b>	<b>644</b>	<b>613</b>
Pension liabilities	3	(137)	(22)	(103)
<b>TOTAL NET ASSETS</b>		<b>490</b>	<b>622</b>	<b>510</b>
<b>Equity</b>				
Share capital	14	139	139	139
Share premium	15	91	89	91
Capital redemption reserve	15	156	156	156
Revaluation reserve	15	8	8	8
Profit and loss account	15	91	223	111
<b>Equity shareholders' funds</b>		<b>485</b>	<b>615</b>	<b>505</b>
Non equity share capital	14	2	2	2
<b>Shareholders' funds</b>		<b>487</b>	<b>617</b>	<b>507</b>
Minority interests		3	5	3
<b>TOTAL EQUITY</b>		<b>490</b>	<b>622</b>	<b>510</b>

# WH Smith PLC

## Group Cash Flow Statement

For the 6 months to 28 February 2003

	Note	6 months to		12 months to
		28 Feb 2003	28 Feb 2002 As restated	31 Aug 2002 As restated
		£m	£m	£m
<b>Cash inflow from operating activities</b>	16	<b>62</b>	30	128
<b>Returns on investment and servicing of finance</b>		<b>(2)</b>	4	8
<b>Taxation</b>		<b>(15)</b>	(18)	(36)
Purchase of fixed assets		(19)	(30)	(66)
Purchase of shares for employee share schemes		(10)	-	(3)
Disposal of fixed assets		2	1	2
<b>Cash outflow from capital expenditure and investment</b>		<b>(27)</b>	(29)	(67)
Proceeds on disposal of operation		-	-	2
Acquisitions – cash consideration		(1)	-	(22)
<b>Cash outflow for acquisitions and disposals</b>		<b>(1)</b>	-	(20)
Equity dividends paid		(32)	(32)	(47)
<b>Cash outflow before use of liquid resources and financing</b>		<b>(15)</b>	(45)	(34)
Issue of shares		-	-	2
Decrease in debt		(18)	(38)	(9)
<b>Cash outflow from financing</b>		<b>(18)</b>	(38)	(7)
<b>Decrease in cash</b>		<b>(33)</b>	(83)	(41)
<b>Memorandum – Analysis of free cash flow</b>				
		<b>£m</b>	<b>£m</b>	<b>£m</b>
<i>Profit before tax, exceptional items and goodwill amortisation</i>		<b>91</b>	89	117
<i>Adjustment for FRS 17</i>		-	2	1
<i>Depreciation</i>		<b>27</b>	26	52
<i>Movement in working capital</i>		<b>(57)</b>	(81)	(28)
<i>Capital expenditure on fixed assets</i>		<b>(19)</b>	(30)	(66)
<i>Proceeds on disposal of fixed assets</i>		<b>2</b>	1	2
<i>Tax paid</i>		<b>(15)</b>	(18)	(36)
<i>Decrease in provisions</i>		<b>(1)</b>	(2)	(3)
<b>Free cash flow</b>		<b>28</b>	(13)	39
<i>Dividends</i>		<b>(32)</b>	(32)	(47)
<i>Issue of shares</i>		-	-	2
<i>Proceeds on disposal of operation</i>		-	-	2
<i>Acquisitions</i>		<b>(1)</b>	-	(22)
<i>Purchase of own shares for employee share schemes</i>		<b>(10)</b>	-	(3)
<i>Cash outflow relating to exceptional items</i>		-	-	(3)
<b>Cash movement in debt</b>		<b>(15)</b>	(45)	(32)
<i>Opening net cash</i>		<b>44</b>	75	75
<i>Cash in subsidiaries acquired</i>		<b>1</b>	-	2
<i>Currency translation movements</i>		<b>1</b>	(1)	(1)
<b>Closing net cash</b>		<b>31</b>	29	44

## WH Smith PLC

### Group Statement of Total Recognised Gains and Losses

For the 6 months to 28 February 2003

	Note	6 months to		12 months to
		28 Feb 2003	28 Feb 2002	31 Aug 2002
		As restated	As restated	
		£m	£m	£m
Profit attributable to shareholders		27	35	47
Currency translation differences		3	-	(10)
Loss relating to pension scheme	3	(50)	(25)	(142)
Deferred tax attributable to pension scheme liability		15	8	43
<b>Total recognised (loss) / gain for period</b>		<b>(5)</b>	<b>18</b>	<b>(62)</b>
Prior year adjustment for FRS 17	3	(104)		
<b>Total recognised loss for period since last annual report</b>		<b>(109)</b>		

### Reconciliation of Movements in Group Shareholders' Funds

For the 6 months to 28 February 2003

	Note	6 months to		12 months to
		28 Feb 2003	28 Feb 2002	31 Aug 2002
		As restated	As restated	
		£m	£m	£m
<b>Shareholders' funds at beginning of period as previously stated</b>		<b>611</b>	614	614
Prior year adjustment for FRS 17	3	(104)	-	-
<b>Shareholders' funds at beginning of period as restated</b>		<b>507</b>	614	614
Retained earnings		12	20	-
Issue of shares		-	-	2
Movement in net pension deficit		(35)	(17)	(99)
Currency translation differences		3	-	(10)
<b>Net (reductions) / additions to shareholders' funds</b>		<b>(20)</b>	3	(107)
<b>Shareholders' funds at end of period</b>		<b>487</b>	617	507

# WH Smith PLC

## Notes to the Interim Financial Statements

For the 6 months to 28 February 2003

### 1 (A) Segmental Analysis of Sales and Profits

	6 months to				12 months to	
	28 Feb 2003		28 Feb 2002		31 Aug 2002	
	Sales £m	Profit £m	Sales £m	Profit as restated £m	Sales £m	Profit as restated £m
<b>Retailing</b> (note a)						
WHSmith High Street	700	76	720	76	1,189	79
UK Travel Retail (note b)	137	8	144	8	306	21
WHSmith Online	5	(1)	4	(2)	6	(3)
<b>UK Retailing</b>	<b>842</b>	<b>83</b>	<b>868</b>	<b>82</b>	<b>1,501</b>	<b>97</b>
USA Travel Retail	90	(9)	100	(11)	216	(16)
ASPAC Retail (note c)	82	5	75	5	138	5
<b>Total Retailing</b>	<b>1,014</b>	<b>79</b>	<b>1,043</b>	<b>76</b>	<b>1,855</b>	<b>86</b>
Publishing (note d)	76	11	65	9	138	19
WHSmith News Distribution (note e)	533	15	538	12	1,069	27
Internal sales (note f)	(67)	-	(64)	-	(126)	-
Support costs	-	(6)	-	(6)	-	(14)
Pensions service costs	-	(7)	-	(7)	-	(13)
Internal rents (note g)	-	1	-	1	-	4
<b>Total operating profit before exceptional items and goodwill amortisation</b>	<b>1,556</b>	<b>93</b>	<b>1,582</b>	<b>85</b>	<b>2,936</b>	<b>109</b>
Exceptional items and goodwill (note h)	-	(37)	-	(29)	-	(33)
<b>Operating profit</b>	<b>1,556</b>	<b>56</b>	<b>1,582</b>	<b>56</b>	<b>2,936</b>	<b>76</b>
Interest		(2)		4		8
<b>Profit on ordinary activities before taxation</b>		<b>54</b>		<b>60</b>		<b>84</b>

- a) Like for like sales for UK Retailing (adjusted for selling space) in the 6 months to 28 February 2003 were down 2% (consisting of WHSmith High Street down 4%, UK Travel Retail up 4% and WHSmith Online up 31%). Like for like sales for USA Travel Retail were up 4% (consisting of Airports up 5% and Hotels up 4%). Like for like sales for ASPAC Retail were up 1%.
- b) UK Travel Retail includes sales of £3m (2002; £3m) and profits of £0.4m (2002; £0.5m) generated in continental Europe.
- c) ASPAC Retail includes sales arising from the acquisition of Calendar Club of £4.6m and associated profits of £0.8m.
- d) Sales from Publishing comprise Hodder Headline £72m (2002; £64m), John Murray Publishing £4m (2002; £nil) and Helicon Publishing £nil (2002; £1m). Profits from Publishing comprise Hodder Headline £10.6m (2002; £9.6m) and £0.6m (2002; £nil) arising from the acquisition of John Murray Publishing. In the prior period, Publishing also incurred losses from Helicon of £1.1m.
- e) Profits from WHSmith News Distribution relate to both WHSmith News Distribution and Connect2U. In the 6 months to 28 February 2003, WHSmith News Distribution, including the results of the now integrated Connect2U operation, made a profit of £15m. In the prior period, WHSmith News Distribution made a profit of £14m and Connect2U, which operated as a stand-alone business, a loss of £2m.
- f) Internal sales comprise sales to Group companies by WHSmith News Distribution £55m (2002; £54m) and Hodder Headline £12m (2002; £10m).
- g) The results for Retailing are reported after an internal arm's length market rent on freehold and long leasehold properties owned and occupied by the Group. The internal income generated of £1m (2002; £1m) is shown as a separate credit to the profit and loss account giving a nil effect to operating profit.
- h) Exceptional items incurred during the 6 months were £35m (2002; £27m) and are analysed in Note 2. Goodwill amortisation of £2m is analysed as UK Retailing £1m (2002; £1m) and USA Travel Retail £1m (2002; £1m).

## WH Smith PLC

### Notes to the Interim Financial Statements

For the 6 months to 28 February 2003

#### 1 (B) Analysis of Retailing Stores and Selling Space

<b>Number of stores</b>	<b>1 Sept 2002</b>	<b>Opened</b>	<b>Closed</b>	<b>28 Feb 2003</b>
WHSmith High Street	553	1	(2)	<b>552</b>
UK Travel Retail	183	1	(1)	<b>183</b>
<b>UK Retailing</b>	<b>736</b>	<b>2</b>	<b>(3)</b>	<b>735</b>
USA Travel Retail – Hotels	345	-	(33)	<b>312</b>
USA Travel Retail – Airports	183	8	(18)	<b>173</b>
ASPAC Retail	200	5	(6)	<b>199</b>
<b>Total</b>	<b>1,464</b>	<b>15</b>	<b>(60)</b>	<b>1,419</b>

<b>Retail selling square feet (000's)</b>	<b>1 Sept 2002</b>	<b>Opened</b>	<b>Closed</b>	<b>28 Feb 2003</b>
WHSmith High Street	3,045	8	(7)	<b>3,046</b>
UK Travel Retail	212	1	(3)	<b>210</b>
<b>UK Retailing</b>	<b>3,257</b>	<b>9</b>	<b>(10)</b>	<b>3,256</b>
USA Travel Retail – Hotels	349	-	(27)	<b>322</b>
USA Travel Retail – Airports	181	9	(20)	<b>170</b>
ASPAC Retail	778	16	(17)	<b>777</b>
<b>Total</b>	<b>4,565</b>	<b>34</b>	<b>(74)</b>	<b>4,525</b>

# WH Smith PLC

## Notes to the Interim Financial Statements

For the 6 months to 28 February 2003

### 2. Exceptional Items

#### (i) Exceptional items in the current year

##### Further impairment and write down of USA Travel Retail assets

During the first half of the previous financial year, a review of the carrying value of assets in the WHSmith USA Travel Retail operations was undertaken. It was concluded that as a result of the significant impact of the events of September 11<sup>th</sup> on the trading prospects of the business, the value of certain assets were impaired and an exceptional impairment charge £27m was recognised (see below for details). In arriving at this charge, assumptions were made about the rate of recovery of the US travel market. However, in the light of experience, these assumptions have proved optimistic and trading has fallen short of our expectations. Accordingly, the Board have again reviewed the carrying value of the assets and have concluded that further material impairment has occurred. An exceptional charge of US\$55m (£35m) has therefore been booked in the first half results. The charge has been applied against goodwill US\$15m (£9m) and fixed assets US\$40m (£26m). As a result, the carrying value of WHSmith USA assets in the balance sheet at 28 February 2003 has been written down to US\$68m (£43m).

#### (ii) Exceptional items in the previous year

##### Impairment and write down of USA Travel Retail assets

In the 6 months to February 2002, the Group carried out a review of the carrying value of the assets in the WHSmith USA Travel Retail operation following the tragic events of September 11<sup>th</sup>. It was concluded that a material impairment of asset values had occurred. The adjustment made to stock was US\$10m (£6.9m), to debtors was US\$1.6m (£1.1m), to provisions was US\$7.5m (£5.2m), to tangible fixed assets US\$7.5m (£5.2m) and to goodwill was US\$11.3m (£7.8m). Associated restructuring costs of US\$1.1m (£0.8m) were also incurred.

### 3. Pensions Arrangements

#### (A) Restatement of comparatives

Financial Reporting Standard 17: Retirement Benefits (FRS 17) has been adopted with effect from 1 September 2002. The adoption of FRS 17 has required a change to the accounting treatment of pensions and the prior year results have been restated accordingly as follows.

##### (i) Consolidated balance sheet

	Other debtors due within one year £m	Provisions for liabilities and charges £m	Pension liabilities £m	Profit and loss account £m
At 28 February 2002	191	(13)	-	243
Adoption of FRS 17	(1)	3	(22)	(20)
<b>28 February 2002 restated</b>	<b>190</b>	<b>(10)</b>	<b>(22)</b>	<b>223</b>
	Other debtors due within one year £m	Provisions for liabilities and charges £m	Pension liabilities £m	Profit and loss account £m
At 31 August 2002	196	(28)	-	215
Adoption of FRS 17	(4)	3	(103)	(104)
<b>31 August 2002 restated</b>	<b>192</b>	<b>(25)</b>	<b>(103)</b>	<b>111</b>

# WH Smith PLC

## Notes to the Interim Financial Statements

For the 6 months to 28 February 2003

### 3. Pensions Arrangements

#### (A) Restatement of comparatives (cont.)

Under FRS 17, the difference between the market value of the assets of the Group's principal defined benefit pension funds and the present value of accrued pension liabilities is shown as an asset or liability on the balance sheet, net of deferred tax. Previously, the only balance sheet item was a provision representing the cumulative difference between pension charges included in the profit and loss account and actual payments made to the scheme and the provision for un-funded pension obligations and other post retirement benefits.

#### (ii) Consolidated profit and loss account

	Operating profit £m	Interest £m	Profit attributable to shareholders £m
At 28 February 2002	63	-	38
Adoption of FRS 17	(7)	4	(3)
<b>28 February 2002 restated</b>	<b>56</b>	<b>4</b>	<b>35</b>

	Operating profit £m	Interest £m	Profit attributable to shareholders £m
At 31 August 2002	89	-	52
Adoption of FRS 17	(13)	8	(5)
<b>31 August 2002 restated</b>	<b>76</b>	<b>8</b>	<b>47</b>

The profit and loss charge, under SSAP 24, comprised a regular pension cost net of spreading of the surplus over the average remaining service lives of the relevant employees and a notional interest credit. Under FRS 17, the following items are included in the profit and loss account;

#### *Charged to operating profit*

- the full service cost of pension provision relating to the period, together with the costs of any benefits relating to past service.

#### *Included in interest*

- a charge equal to the expected increase in the present value of the scheme liabilities because the benefits are closer to settlement; and netted against this.
- a credit equivalent to the Group's long-term expected return on assets based on market value of the scheme assets at the start of the period.

Included in the statement of total recognised gains and losses is the difference between the expected return on pension assets at the start of the period along with the differences, which arise from experience or assumption changes in pension liabilities.

# WH Smith PLC

## Notes to the Interim Financial Statements

For the 6 months to 28 February 2003

### 3. Pensions Arrangements

#### (B) Pension Plans

The Group operates pension plans in a number of countries around the world. Pension arrangements for UK employees are operated through two defined benefit schemes (the WHSmith Pension Trust and Hodder Headline Staff Retirement Benefits Plan) and a defined contribution scheme, WHSmith Pension Builder. The most significant scheme is the defined benefit WHSmith Pension Trust. In other countries, benefits are determined in accordance with local practice and regulations and funding is provided accordingly. The assets of the pension plans are held in separate funds administered by Trustees, which are independent of the Group's finances.

The market value of the assets in the schemes and the present value of the liabilities in the schemes were:

	At 28 Feb 2003 £m	At 28 Feb 2002 £m	At 31 Aug 2002 £m
Total market value of assets	558	677	596
Present value of scheme liabilities	(751)	(704)	(739)
<b>Deficit in the scheme</b>	<b>(193)</b>	<b>(27)</b>	<b>(143)</b>
Related deferred tax asset	58	8	43
<b>Net defined benefit scheme liabilities</b>	<b>(135)</b>	<b>(19)</b>	<b>(100)</b>
Net retirement medical liabilities	(2)	(3)	(3)
<b>Net pension liabilities</b>	<b>(137)</b>	<b>(22)</b>	<b>(103)</b>

Under FRS 17, there is only a requirement to revalue scheme liabilities at the financial year end. As a consequence, the last formal valuation of scheme liabilities was at 31 August 2002.

Our actuaries (Mercer Human Resource Consulting) have advised that due to a fall in real bond yields, the liabilities of the defined benefit pension schemes would have increased by approximately £50m before deferred tax accounting over the period if these new assumptions had been adopted.

The WHSmith Pension Trust scheme was closed to new entrants in September 1995 and under the projected unit method the current service cost would be expected to increase as members approach retirement. The Hodder Headline Staff Retirement Benefits Plan continues to be open to new members.

# WH Smith PLC

## Notes to the Interim Financial Statements

For the 6 months to 28 February 2003

### 3. Pensions Arrangements

#### (B) Pension Plans (cont.)

##### (i) Defined Benefit Pension Schemes

*Analysis of the amount charged to operating profit*

	At 28 Feb 2003 £m	At 28 Feb 2002 £m	At 31 Aug 2002 £m
Current service cost	(7)	(7)	(13)

*Analysis of the amount (charged) / credited to interest*

	At 28 Feb 2003 £m	At 28 Feb 2002 £m	At 31 Aug 2002 £m
Expected return on pension scheme assets	19	24	47
Interest on pension scheme liabilities	(21)	(20)	(39)
	(2)	4	8

*Analysis of the actuarial loss in the statement of total recognised gains and losses*

	At 28 Feb 2003 £m	At 28 Feb 2002 £m	At 31 Aug 2002 £m
Actual return less expected return on pension scheme assets	(50)	(25)	(117)
Experience gains and losses arising on the scheme liabilities	-	-	(19)
Changes in assumptions underlying the present value of the scheme liabilities	-	-	(6)
	(50)	(25)	(142)

## WH Smith PLC

### Notes to the Interim Financial Statements

For the 6 months to 28 February 2003

#### 3. Pensions Arrangements

##### (B) Pension Plans (cont.)

###### *Movement in scheme deficit during the year*

	At 28 Feb 2003 £m	At 28 Feb 2002 £m	At 31 Aug 2002 £m
At beginning of period	(143)	-	-
Current service cost	(7)	(7)	(13)
Contributions	9	1	4
Interest (cost) / income	(2)	4	8
Actuarial loss	(50)	(25)	(142)
<b>Deficit in scheme</b>	<b>(193)</b>	<b>(27)</b>	<b>(143)</b>

##### (ii) Defined Contribution Pension Scheme

The group's pension cost charge to its defined contribution scheme, WHSmith Pension Builder, for the period amounted to £2m (2002; £2m).

## WH Smith PLC

### Notes to the Interim Financial Statements

For the 6 months to 28 February 2003

#### 4. Operating Lease Commitments

	28 Feb 2003			31 Aug 2002
	Annual net rental commitment £m	Future cumulative net rental commitment £m	Average lease term (years)	Annual net rental commitment £m
WHSmith High Street	77	770	10	78
UK Travel Retail	40	131	5	39
<b>UK Retailing</b>	<b>117</b>	<b>901</b>	<b>7</b>	<b>117</b>
USA Travel Retail	34	117	3	37
ASPAC Retail	16	43	3	14
<b>Total Retailing</b>	<b>167</b>	<b>1,061</b>	<b>6</b>	<b>168</b>
Publishing	3	21	8	3
WHSmith News Distribution	3	35	10	3
Property sublet to third parties	10	72	7	10
<b>Gross rental commitment</b>	<b>183</b>	<b>1,189</b>	<b>6</b>	<b>184</b>
Less - External rent receivable	(14)	(64)	5	(14)
- Internal rent receivable	(1)	(32)	21	(3)
<b>Total</b>	<b>168</b>	<b>1,093</b>	<b>7</b>	<b>167</b>

- (i) WHSmith High Street gross rental commitments includes internal rent of £1m (2002; £1m) relating to those properties which are owned by the Group. The cumulative future costs of internal rent are taken as the book value of those properties in the balance sheet at £32m (2002; £34m), all of which relates to WHSmith High Street.
- (ii) External rent receivable relates to properties, which are let by the Group to third parties. Of the total external rent receivable £5m (2002; £4m) relates to USA Travel Retail which sublets retail space in airports where it operates a master contract and £9m (2002; £8m) represents income on subletting Group surplus property. Of the future cumulative external rent receivable, £17m (2002; £20m) relates to USA Travel Retail.
- (iii) Outstanding contingencies under previous assignments of leases where the liability would revert to the Group if the lease defaulted are estimated at £18m (2002; £17m) per year with a future cumulative rental commitment of approximately £149m (2002; £165m) and an average lease term of around 8 years.
- (iv) For those leases that are turnover related leases the annual net rental commitment is calculated using the minimum rental liability. The aggregate rental liability for these stores with minimum guaranteed rents is £88m (2002; £87m) and relates to UK Travel Retail, USA Travel Retail and ASPAC Retail stores.



## WH Smith PLC

### Notes to the Interim Financial Statements

For the 6 months to 28 February 2003

#### 7. Earnings Per Share

	<u>6 months to</u>		<u>12 months to</u>
	<b>28 Feb 2003</b>	28 Feb 2002	31 Aug 2002
		As restated	As restated
<b>Profit attributable to shareholders as previously stated (£m)</b>	<b>27</b>	38	52
Prior year adjustment	-	(3)	(5)
<b>Profit attributable to shareholders as restated (£m)</b>	<b>27</b>	35	47
Exceptional items net of related taxation	<b>35</b>	27	28
Amortisation of goodwill	<b>2</b>	2	5
<b>Adjusted earnings (£m)</b>	<b>64</b>	64	80
<b>Weighted average shares in issue for earnings per share</b>	<b>245</b>	246	246
Add weighted average number of ordinary shares under option	-	1	2
<b>Weighted average ordinary shares for fully diluted earnings per share</b>	<b>245</b>	247	248
<b>Earnings per share – Basic</b>	<b>11.0p</b>	14.2p	19.1p
<b>Earnings per share – Diluted</b>	<b>11.0p</b>	14.2p	19.0p
<b>Adjusted earnings per share – Basic</b>	<b>26.1p</b>	26.0p	32.5p
<b>Adjusted earnings per share – Diluted</b>	<b>26.1p</b>	25.9p	32.3p

The weighted number of ordinary shares in issue is stated after excluding 6,541,345 shares held solely for the purpose of satisfying obligations under employee share schemes.

## WH Smith PLC

### Notes to the Interim Financial Statements

For the 6 months to 28 February 2003

#### 8. Fixed Charges Cover

	6 months to		12 months
	28 Feb 2003	28 Feb 2002	31 Aug 2002
		As restated	As restated
	£m	£m	£m
Interest cost / (income)	2	(4)	(8)
Operating lease rentals	95	91	186
Property taxes	18	18	36
Other property costs	7	7	15
<b>Total fixed charges</b>	<b>122</b>	<b>112</b>	<b>229</b>
<b>Profit before tax, exceptional items and goodwill amortisation</b>	<b>91</b>	<b>89</b>	<b>117</b>
<b>Profit before tax, exceptional items, goodwill amortisation and fixed charges</b>	<b>213</b>	<b>201</b>	<b>346</b>
<b>Fixed charges cover</b>	<b>1.8x</b>	<b>1.8x</b>	<b>1.5x</b>

Fixed charges cover is calculated by dividing profit before tax, exceptional items, goodwill amortisation, and fixed charges by total fixed charges.

#### 9. Segmental Analysis of Operating Assets / (Liabilities) Employed

	At	At	At
	28 Feb 2003	28 Feb 2002	31 Aug 2002
		As restated	As restated
	£m	£m	£m
WHSmith High Street	246	229	224
UK Travel Retail	36	41	28
WHSmith Online	8	8	7
<b>UK Retailing</b>	<b>290</b>	<b>278</b>	<b>259</b>
USA Travel Retail	43	80	64
ASPAC Retail	28	29	22
<b>Total Retailing</b>	<b>361</b>	<b>387</b>	<b>345</b>
WHSmith News Distribution	(6)	11	(9)
<b>Trading operations (excluding Publishing)</b>	<b>355</b>	<b>398</b>	<b>336</b>
Publishing	260	235	263
<b>Trading operations (including Publishing)</b>	<b>615</b>	<b>633</b>	<b>599</b>
Freehold property	39	41	42
Support functions	(33)	(49)	(47)
Provisions for liabilities and charges	(25)	(10)	(25)
<b>Operating assets employed</b>	<b>596</b>	<b>615</b>	<b>569</b>
Net cash	31	29	44
<b>Total net assets before pension liability</b>	<b>627</b>	<b>644</b>	<b>613</b>
Pension liabilities	(137)	(22)	(103)
<b>TOTAL NET ASSETS</b>	<b>490</b>	<b>622</b>	<b>510</b>

# WH Smith PLC

## Notes to the Interim Financial Statements

For the 6 months to 28 February 2003

### 10. Acquisitions and Goodwill

<b>Goodwill</b>	<b>£m</b>
<b>Cost</b>	
At 1 September 2002	268
Acquisitions ( <i>note a</i> )	1
Currency translation differences	(1)
<b>At 28 February 2003</b>	<b>268</b>
<b>Accumulated amortisation</b>	
At 1 September 2002	28
Amortised in period	2
Impairment charge in the period	9
Other movements	1
<b>At 28 February 2003</b>	<b>40</b>
<b>Net book value</b>	
<b>At 28 February 2003</b>	<b>228</b>
At 1 September 2002	240

#### (a) Acquisitions

On 21 October 2002, the Group acquired a further 25% holding of the share capital of Angus & Robertson Bookworld Calendar Club Pty Limited and Calendar Club New Zealand Limited bringing its total ownership in both entities to 75%. Total consideration including fees and expenses was £0.9m and the capitalised goodwill arising on the transaction was £0.7m. Since acquisition, these two companies have had sales of £4.6m with associated profits of £0.8m.

#### (b) Goodwill

Purchased goodwill is capitalised as an asset and amortised against profits over its useful economic life. In estimating the useful economic life of purchased goodwill, consideration is given to its durability.

Goodwill arising on the earlier acquisitions of John Menzies Retail, Internet Bookshop and WGL Retail Holdings Limited is regarded by the Directors as having a useful life of 20 years and is therefore amortised through the profit and loss account over that period.

In accordance with FRS10, where goodwill is regarded as having an indefinite life, it is not amortised but is subject to an annual test for impairment. As permitted under FRS10, this represents a departure, for the purposes of giving a true and fair view, from the requirements of the Companies Act 1985, which requires goodwill to be amortised.

Goodwill arising on the acquisitions of Hodder Headline (£172m), Wayland (£3m), John Murray (£14m) and Robert Gibson (£1m) is regarded as having an indefinite useful life and is therefore not amortised in the profit and loss account. It is considered that the purchased goodwill is durable because the businesses are expected to maintain their market share and profitability in UK publishing over a long period. The majority of titles published and imprint names have significant lifespans due to copyright and licensing arrangements and range and strength of backlist titles. It is also considered that the barriers to entry which exist (and are anticipated to continue) and the nature of competition in the publishing industry are such that scale, relationships with third parties, intellectual property rights and quality of branding will prove this goodwill to be durable. Since it is not possible to identify a finite useful life for goodwill on the purchases of Hodder Headline, Wayland, John Murray and Robert Gibson, it is not possible to quantify any amortisation that would be charged. The application of an impairment test (which is carried out annually) supports the value of goodwill and, as a result, no charge for impairment is required at the balance sheet date.

# WH Smith PLC

## Notes to the Interim Financial Statements

For the 6 months to 28 February 2003

### 11. Fixed Assets

#### (A) Changes in Fixed Assets

	Fixed Assets £m	Costs of shares acquired for employee share schemes £m	Investment in associated undertakings £m	Total £m
Net Book Value at 1 September 2002	326	16	1	343
Additions	19	10	-	29
Depreciation	(27)	-	-	(27)
Impairment charge in the period	(26)	-	-	(26)
Currency translation differences	1	-	-	1
<b>Net Book Value at 28 February 2003</b>	<b>293</b>	<b>26</b>	<b>1</b>	<b>320</b>

#### (B) Analysis of Fixed Assets

	At 28 Feb 2003 £m	At 28 Feb 2002 £m	At 31 Aug 2002 £m
Freehold and long leasehold property	39	41	42
Short leasehold	100	106	109
Fixtures, fittings and equipment	154	177	175
<b>Net Book Value</b>	<b>293</b>	<b>324</b>	<b>326</b>

### 12. Financial Assets and Liabilities

	At 28 Feb 2003 £m	At 28 Feb 2002 As restated £m	At 31 Aug 2002 As restated £m
Cash at bank and in hand	67	54	98
Repayable within one year or on demand	(34)	(23)	(52)
Repayable in more than five years	(2)	(2)	(2)
<b>Net cash</b>	<b>31</b>	<b>29</b>	<b>44</b>

At 31 August 2002, £17m stated as being repayable in more than one year but less than five years and £22m stated as being repayable in more than five years have now been reclassified as repayable within one year or on demand. At 28 February 2002, £23m stated as being repayable in more than five years has now been reclassified as being repayable within one year or on demand.

## WH Smith PLC

### Notes to the Interim Financial Statements

For the 6 months to 28 February 2003

#### 12. Financial Assets and Liabilities (cont.)

	At 28 Feb 2003 £m	At 28 Feb 2002 £m	At 31 Aug 2002 £m
Cash at bank and in hand <i>(note a)</i>	67	54	98
Debt			
- Sterling floating rate <i>(note b)</i>	(34)	(23)	(52)
- Sterling fixed rate <i>(note c)</i>	(2)	(2)	(2)
<b>Net cash</b>	<b>31</b>	<b>29</b>	<b>44</b>

- a) Cash at bank is held on short-term deposit, bearing interest at an average rate of 3.8% (2002; 4.1%). Material foreign exchange exposure at 28 February 2003 relates to the financial assets and liabilities in Hodder Headline, UK Travel Retail, USA Travel Retail and ASPAC Retail. Cash at bank and in hand includes £1m (2002; £9m) worth of US dollars, £11m (2002; £11m) in Australian dollars, £9m (2002; £3m) in New Zealand dollars, £1m (2002; £1m) in Singapore dollars, £1m (2002; £nil) in Hong Kong dollars and £1m (2002; £1m) in Euros.
- b) Floating rate debt represents loan notes and a committed facility loan. The loan notes repayable in 2008 bear interest at a rate of 1% per annum below LIBOR. The committed facility loan bears an interest rate of LIBOR plus 45 basis points and is repayable May 2003.
- c) Sterling fixed rate debt includes 5.125% redeemable unsecured loan stock of £2m (2002; £2m).
- d) In addition to the above, at 28 February 2003, the Group had unredeemed 'B' shares of £2m which carry a non-cumulative preferential dividend set at 75% of six month LIBOR.
- e) The company has unutilised additional committed facilities of £187m, of which £52m matures in May 2003 and £135m in May 2007.

#### 13. Provisions for Liabilities and Charges

	Business partner guarantees £m	Deferred taxation £m	Non-trading property provisions £m	Total £m
At 1 September 2002 as restated	5	15	5	25
Charged during the period	-	1	1	2
Utilised in period	(1)	-	(1)	(2)
<b>At 28 February 2003</b>	<b>4</b>	<b>16</b>	<b>5</b>	<b>25</b>

In the 6 months to 28 February 2003, an additional £1m was provided for future rental commitments on vacant or surplus properties. This provision will be utilised over a period of 2 to 12 years.

Business partner guarantees represent amounts guaranteed to USA business partner joint ventures and will be utilised over the partnership lease term.

## WH Smith PLC

### Notes to the Interim Financial Statements

For the 6 months to 28 February 2003

#### 14. Share Capital

	At 28 Feb 2003	At 28 Feb 2002	At 31 Aug 2002
	£m	£m	£m
Ordinary shares at 55.55p each	139	139	139
'B' shares of 53.75p each	2	2	2
	<b>141</b>	<b>141</b>	<b>141</b>

  

	Number of shares (millions)	Number of shares (millions)	Number of shares (millions)
Ordinary shares of 55.55p each	250	249	250
'B' shares of 53.75p each	4	4	4

At 28 February 2003, the number of options held under employee share schemes was 16.9 million shares (2002; 13.4 million). The proceeds due to the Company upon exercise of these options would be approximately £66m (2002; £54m).

The 'B' shares are redeemable at their nominal value at the shareholders' option during any other period declared by the Company, at the Company's option or at maturity on 31 August 2008.

#### 15. Reserves

	Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Profit and loss account £m
<b>At 1 September 2002 as previously stated</b>	<b>91</b>	<b>156</b>	<b>8</b>	<b>215</b>
Prior period restatement for FRS 17	-	-	-	(104)
<b>At 1 September 2002 as restated</b>	<b>91</b>	<b>156</b>	<b>8</b>	<b>111</b>
Profit retained for the period	-	-	-	12
Currency translation differences	-	-	-	3
<b>Reserves excluding current period pension deficit at 28 February 2003</b>	<b>91</b>	<b>156</b>	<b>8</b>	<b>126</b>
Current period pension deficit adjustment	-	-	-	(35)
<b>Reserves at 28 February 2003</b>	<b>91</b>	<b>156</b>	<b>8</b>	<b>91</b>

The profit and loss account reserve at 28 February 2003 is stated after previously writing off acquired goodwill of £58m – including USA Travel Retail £39m.

# WH Smith PLC

## Notes to the Interim Financial Statements

For the 6 months to 28 February 2003

### 16. Notes to the Cash Flow Statement

#### (A) Reconciliation of operating profit to net cash inflow from operating activities

	6 months to		12 months to
	28 Feb 2003	28 Feb 2002	31 Aug 2002
		As restated	As restated
	£m	£m	£m
Operating profit	56	56	76
Adjustment for FRS 17	-	2	1
Exceptional items	35	27	28
Depreciation of fixed assets	27	26	52
Amortisation of goodwill	2	2	5
Increase in stock	(13)	(27)	(7)
Increase in debtors	(18)	(11)	(9)
Decrease in creditors	(26)	(43)	(12)
Decrease in provisions	(1)	(2)	(3)
<b>Net cash inflow from operating activities before exceptional items</b>	<b>62</b>	<b>30</b>	<b>131</b>
Cash outflow relating to exceptional items	-	-	(3)
<b>Net cash inflow from operating activities after exceptional items</b>	<b>62</b>	<b>30</b>	<b>128</b>

#### (B) Reconciliation of net cash flow to movement in net cash

	6 months to		12 months to
	28 Feb 2003	28 Feb 2002	31 Aug 2002
	£m	£m	£m
Net cash at the start of the period	44	75	75
Decrease in cash in the period	(33)	(83)	(41)
Cash in subsidiaries acquired	1	-	2
Currency translation differences	1	(1)	(1)
Cash flow from decrease in debt	18	38	9
<b>Net cash at the end of the period</b>	<b>31</b>	<b>29</b>	<b>44</b>

## **WH Smith PLC**

### **Notes to the Interim Financial Statements**

For the 6 months to 28 February 2003

#### **17. Basis of Preparation**

The interim announcement for the 6 months to 28 February 2003 has been prepared on the basis of the accounting policies set out in the Company's Annual Report and Financial Statements for the 12 months to 31 August 2002 with the exception of the adoption of the new accounting standard FRS 17: Retirement Benefits. Details of this change in accounting policy are set out in note 3. The financial information contained in this interim announcement does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The financial information for the full preceding year is based on the statutory accounts for the financial year ended 31 August 2002. These statutory accounts have been filed with the Registrar of Companies. The auditors' reports on these accounts were unqualified and did not include a statement under Section 237 (2) or (3) of the Companies Act 1985.

#### **18. Approval of Interim Statement**

The Interim Statement was approved by the Board of Directors on 17 April 2003.

Deloitte & Touche have issued the following Independent Review Report relating to the Interim Statement. The Interim Statement comprises the Group profit and loss account, Group balance sheet, Group cash flow statement, Group statement of total recognised gains and losses and notes 1A, 2, extracts of note 3, and notes 5, 6, 7, 16, 17 and 18 of this document.

The Interim Statement will be available on WH Smith PLC's website and mailed to shareholders by 16 May 2003.

## **INDEPENDENT REVIEW REPORT TO WH SMITH PLC**

### **Introduction**

We have been instructed by the company to review the financial information for the six months ended 28 February 2003 which comprises the Group profit and loss account, the Group balance sheet, the Group cash flow statement, the Group statement of total recognised gains and losses and related notes 1 - 7. We have read the other information contained in the Interim Statement and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This Report is made solely to the company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

### **Directors' responsibilities**

The Interim Statement, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim Statement in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

### **Review work performed**

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom auditing standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

### **Review conclusion**

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 28 February 2003.

Deloitte & Touche  
Chartered Accountants  
London  
**17 April 2003**