

22 April 2004

WH SMITH PLC
INTERIM RESULTS
FOR THE SIX MONTHS TO 29 FEBRUARY 2004

KEY POINTS

Profit before tax, goodwill amortisation and exceptional items down £26m to £65m.

Loss before tax, after exceptional items, £72m (2003 profit: £54m).

Total sales of continuing operations up 4% at £1.5bn

- UK Retail lfl sales flat
- News Distribution lfl sales up 4%
- Publishing lfl sales up 5%
- ASPAC Retail lfl sales up 2%

Operating profit before goodwill amortisation and exceptional items down 28% to £67m.

This includes:

- UK Retail down 39% to £51m
- News Distribution up 13% to £17m
- Publishing flat at £11m
- ASPAC Retail up 40% to £7m

Operating loss after exceptional items £9m (2003 profit: £56m)

‘Operating’ exceptional charges of £75m include the following:

- UK Retail stock write down £45m
- UK Retail fixed asset impairment £17m
- Publishing author advances provision £9m

Exceptional FRS 3 loss on disposal of US business £61m

- includes £39m goodwill previously written off to reserves

ASPAC sale process under way

Earnings per share before exceptional items and goodwill amortisation down 31% to 18.0p

Loss per share of 34.4p (2003 earnings per share: 11.0p)

Interim dividend of 4.0p (2003 – 6.0p)

GROUP CHIEF EXECUTIVE’S COMMENTS

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

“The News Distribution and UK Travel Retail businesses performed well in the first half and the underlying Publishing result was strong.

“ The UK High Street Retail business delivered an unacceptable performance in the first half. This performance is the culmination of a number of years where the business has not fulfilled its potential.

“I believe the business has strong assets on which to build. We have already taken action to strengthen the senior management team and address the operational shortcomings of the business. The priorities are clear: we are reducing our central costs, addressing stock availability, improving the offer in store, strengthening our controls and processes and addressing our product ranges.

“We need to re-instate our authority in the high street and re-establish a compelling consumer offer to generate earnings growth. I am convinced of the potential for profitable organic growth through a return to sound retailing disciplines and rigorous execution of our plans. ”

Enquiries:

WH Smith PLC

Kate Swann	-	Group Chief Executive	020 7409 3222
John Warren	-	Group Finance Director	020 7409 3222
Mark Boyle	-	Investor Relations	020 7514 9630
Louise Evans	-	Media Relations	020 7514 9624

Brunswick

Timothy Grey			020 7404 5959
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CURRENT TRADING

In the seven weeks to 17th April 2004, adjusting for the impact of Easter, **UK Retail** like for like sales were down by 1% but gross margin showed some progress over last year. **ASPAC Retail** like for like sales were up 3%. **Publishing** sales were down 1%. **News Distribution** sales were up 6%.

CHIEF EXECUTIVE’S OPERATIONAL AND FINANCIAL REVIEW

Following the sale of the US businesses and proposed sale of the ASPAC business, the Group will be focused on three business areas, Publishing, News Distribution and UK Retail.

Our Publishing, News Distribution and UK Travel Retail businesses have leading market positions and are performing well.

Publishing is growing, gaining market share and currently ranks second in fiction and secondary education and first in consumer education and further education.

News Distribution has produced good sales and profit growth, driven by a strong magazine market, and a continuing focus on tight cost control. This is a highly cash generative business with cash conversion generally representing over 100% of profits.

The UK Travel Retail business is strong, well managed, and uniquely placed in the UK travel market.

It is clear that the High Street Retail business faces operational and strategic challenges. In order to address the under performance of the High Street businesses, I have identified five key operational priorities:

- **Controlling the cost base:** central costs are high in absolute terms and uncompetitive with other comparable retailers. We are removing 270 central office roles from a base of approximately 1000. This will generate annualised cost savings of £8.5m.
- **Improving stock availability:** historical disciplines have been inadequate with warehouse availability poor and in-store availability worse. We have introduced new disciplines to ensure product file accuracy and ensure stockroom standards are in place.
- **Improving our store offer:** store standards and customer conversion levels have been variable depending upon the particular store or area manager's focus. We are implementing common store standards, introducing service programmes and improving how we communicate with customers.
- **Controls and processes:** financial controls have been inadequately integrated into the business processes and we are focused on introducing greater discipline in three main areas – stock management, budgeting and capital allocation.
- **Range planning:** strong range architecture has been lost, with best sellers not fully ranged in all stores, a lack of value ranges and unclear price structures. We have instigated range reviews with a focus on new product development on core categories and ensuring best sellers are in all stores in time for Christmas.

At the strategic level, we face competition from supermarkets, the internet and specialist retailers. However, this competition varies by category and catchment.

The supermarkets do have a strong position in front-list, fast-moving lines but often have a limited presence in back-list lines. The percentage of sales and profit coming from lines where we overlap with the supermarkets varies materially by category and catchment.

The threat of the supermarkets' move into non-food is clearly real. However, in many of our categories, there are high street specialists succeeding. The lesson is that success is driven by creating a strong customer offer.

In order to ensure that we compete effectively, our offer must be compelling to customers. A bundling of weak offers across categories will not be effective against our competitors. Instead, by establishing greater authority in the categories in which we choose to compete, we will be able to generate greater sales intensities and a more profitable performance.

We are developing our plans in a disciplined way with a clear focus on performance, our stores and our customers. We are currently carrying out very thorough data gathering, analysis and trials to ensure that we fully understand our current position. Having done this we will move ahead decisively and ensure our capital allocation is carefully controlled for maximum effect.

What I have discovered so far is that the picture is much richer than generally portrayed. It is complex and will take time to solve, but I am convinced of the potential for profitable organic growth, by creating a compelling customer offer through a return to sound retailing disciplines and rigorous execution of our plans.

GROUP SUMMARY

Operating profit before exceptional items and goodwill amortisation was down £26m (28%) to £67m (2003 - £93m). After including the FRS17 pension interest cost of £2m (2003 - £2m) pre-tax profit before exceptional items and goodwill amortisation was £65m (2003 - £91m).

Operating loss after exceptional items and goodwill amortisation was £9m, down £65m on last year (2003 profit - £56m). Loss before tax after exceptional items, goodwill amortisation and interest was £72m (2003 profit - £54m).

Earnings per share before exceptional items and goodwill amortisation was 18.0p, down 31% compared to last year. Loss per share after exceptional items and goodwill amortisation was 34.4p (2003 earnings per share – 11.0p).

Given the current trading position of the Group, the Board has decided to declare an interim dividend of 4.0p per share (2003 – 6.0p per share).

The balance sheet remains sound with net cash amounting to £28m (2003 - £31m) and total net assets before pension liabilities of £497m (2003 – £602m). Free cash outflow amounted to £2m compared to an inflow of £28m in the prior year, primarily reflecting the poor profit performance in the period to date.

Although the net cash position at February is similar to last year, the cashflow in the second half of this year will be substantially less than in the same period last year. Firstly, we sold and leased back a number of our properties in the second half last year. Secondly, we are increasing the level of funding into our defined benefit pension scheme, and we will be spending against the provisions created for the US disposal and UK Retailing redundancies in the balance of year. Finally, we anticipate closing the year with a higher level of stock in the High Street business as a result of the Operational Review work, focusing on improving availability. However, this year is somewhat unusual in many respects and looking forward, we expect the Group to perform much more strongly from a cash perspective.

BUSINESS RESULTS

NB: All divisional profit and loss figures in this section are stated before exceptional items and goodwill amortisation.

UK Retail sales were flat at £834m (2003 - £833m). Gross margin fell 2%pts to 37.8%. **WHSmith High Street** sales were marginally down at £687m (2003 - £691m) and down 1% on a like for like basis, adjusting for selling space. **UK Travel Retail** sales grew by 4% to £142m (2003 - £137m).

Books sales were in line with last year. However, increased promotional activity, particularly in fiction books, led to a 2%pts fall in gross margin. Stationery sales were up by 2%, but gross margin fell by 1%pt, through mix effects and increased clearance activity in January as some of our strongest margin lines, such as cards and wrap, performed poorly. News and Express sales were also up 2%, with gross margin flat. Entertainment sales were down 4% on last year, compounded by a 4%pts fall in gross margin due to increased discounting over the Christmas period.

UK Retail divisional profits were down 39% to £51m (2003 - £83m). **WHSmith High Street** divisional profits declined to £43m (2003 - £76m). **UK Travel Retail** achieved divisional profits of £9m (2003 - £8m). **WHSmith Online** divisional losses were £1m (2003 - £1m loss).

The decline in gross margin resulted in gross contribution falling by £16m to £315m. Cost inflation, including store occupancy costs, was approximately 4% in the period. In addition, we incurred a £3m increase in marketing costs and £3m of additional depreciation relating to our new computer system, Retek. In total, costs rose by £16m year on year, and operating profit, therefore, fell by £32m.

UK Retail selling space is 3.3m square feet, marginally up on last year. In the first half of this year, the business has opened eight new stores and closed seven stores across the UK.

ASPAC Retail achieved divisional profits of £7m (2003 - £5m), with sales of £97m (2003 - £81m). Most of the sales increase was due to favourable exchange rates. At constant exchange rates, total sales were up 5% with like for like sales up 2%.

In January we announced a review of our strategic options for the ASPAC Retail businesses. We have decided to sell these businesses and can confirm that the sale process is underway.

Publishing achieved divisional profits of £11m (2003 - £11m), with sales up 5% to £81m (2003 - £77m). The sales growth was achieved through a strong release programme in the first half of the year. Notable releases include Martin Johnson's autobiography, Pamela Stephenson's 'Bravemouth' and the latest Martina Cole 'The Know'. The additional contribution of the sales increase has been offset by an increase in the level of provisioning for unearned authors' advances. Underlying divisional profits, excluding this charge, grew faster than sales.

WHSmith News Distribution achieved divisional profits of £17m (2003 - £15m), with sales of £587m (2003 - £550m). Like for like newspaper sales, adjusting for "red-top" discounting in the prior period, were up 4% driven by price increases and marketing initiatives by the publishers. Weekly magazine sales were up 3%, due to new launches and the continued popularity of celebrity titles. Partworks sales were up 46%, driven by a number of successful new launches. Gross margin was maintained and costs were well controlled, allowing divisional profits to grow by £2m.

US Travel Retail incurred trading divisional losses of £5m (2003 - trading losses of £9m). We have now exited both the Hotels and Airports businesses. As a result, these operations are treated as discontinued in the accounts.

Exceptional items. The Group has booked exceptional charges of £136m in the first half of this year. Of these, £75m is classified as operating exceptional items, charged against operating profit, but treated as exceptional due to their size and non-recurring nature.

Following Kate Swann's appointment as Group Chief Executive, we instigated a full operational and financial review of our UK businesses. The operating exceptional items have arisen from this review and mainly relate to UK Retail.

The largest item relates to the write down of the carrying value of stock in UK Retail - amounting to £45m. There are a number of elements making up this charge. Firstly we have changed our operational approach, clearing our stock rooms and shelves of slow moving items and the tail of previous ranges faster than in the past. Secondly, we have identified obsolete stock, over which we now have improved visibility due to the investment in our new Retek systems. Thirdly, as a result of changes in trading patterns, we have had to write down the value of excess stock of video and music product. In addition, we have increased the ongoing level of stock provisioning.

We have also written down certain fixed assets in the UK Retail business, amounting to £17 m. Firstly, we have suspended a major IT project to implement the High Street IT infrastructure, including Retek, into the UK Travel Retail Business. Secondly, given WHSmith Online's

ongoing losses, we have provided against the carrying value of the fixed assets and fully impaired the goodwill in the business. Thirdly, we have written down the carrying value of the Guildford Concept Store. We learned much from the store as an R&D exercise, but have concluded that it does not provide the answer for the chain as a whole and we are now focusing on different solutions.

In respect of the Publishing business, we have recognised that provisioning in relation to unearned author's advances must reflect the medium-term trend for higher advances. We have therefore not only raised the level of current year provisioning to a level that is fully adequate for current market conditions, but we have also provided a further exceptional amount of £9m to ensure that the balance sheet correctly reflects an up-to-date view of the backlist sales prospects of titles published in previous years.

In total, operating exceptional items amount to £75m. They are mainly non-cash, representing the impairment of previously expended cash. After tax relief, the short-term effect is likely to be cash positive.

In addition to the operating exceptional items, there is a charge of £61m arising on the disposal of the US operations. This includes £39m of goodwill previously written off to reserves.

Post Balance Sheet Event

Today we have announced the results of an organisational review which will result in the loss of 270 personnel at our Swindon and London offices. Restructuring costs of £1m have been booked as exceptional in the first half; the full year costs related to this review will amount to some £11m and the balance will be booked as an exceptional item in the second half. The full year expected amount of savings from this review amounts to £8.5m, the majority of which will benefit the next financial year.

An interview with Kate Swann, Group Chief Executive in video/audio and text is available on: <http://www.whsmithplc.com> and on <http://cantos.com>

WH Smith PLC

Group Profit and Loss Account

For the 6 months to 29 February 2004

12 months to
31 Aug 2003

£m	Note	6 months to 29 Feb 2004			6 months to 28 Feb 2003		12 months to 31 Aug 2003	
		Before exceptional items & goodwill amortisation	Exceptional items & goodwill amortisation	Total	Before exceptional items & goodwill amortisation As restated	Exceptional items & goodwill amortisation	Total As restated	Total As restated
Turnover								
- Continuing operations		1,531	-	1,531	1,474	-	1,474	2,739
- Discontinued operations		49	-	49	90	-	90	181
Group Turnover	1,3	1,580	-	1,580	1,564	-	1,564	2,920
Operating profit / (loss)								
- Continuing operations	1,2	72	(76)	(4)	102	(1)	101	101
- Discontinued operations	1,2	(5)	-	(5)	(9)	(36)	(45)	(52)
Group operating profit / (loss)		67	(76)	(9)	93	(37)	56	49
Profit on sale of fixed assets – continuing operations	2	-	-	-	-	-	-	7
Loss on sale of discontinued operations	2	-	(61)	(61)	-	-	-	-
Profit / (loss) on ordinary activities before interest and taxation		67	(137)	(70)	93	(37)	56	56
Interest		(2)	-	(2)	(2)	-	(2)	(4)
Profit / (loss) on ordinary activities before taxation		65	(137)	(72)	91	(37)	54	52
Tax on profit on ordinary activities	5	(21)	9	(12)	(27)	-	(27)	(29)
Profit / (loss) attributable to shareholders		44	(128)	(84)	64	(37)	27	23
Dividends	6	(10)	-	(10)	(15)	-	(15)	(47)
Retained earnings / (losses)		34	(128)	(94)	49	(37)	12	(24)
<i>(Loss) / earnings per share</i>	7			<i>(34.4)p</i>			<i>11.0p</i>	<i>9.4p</i>
<i>Diluted (loss) / earnings per share</i>	7			<i>(34.4)p</i>			<i>11.0p</i>	<i>9.4p</i>
<i>Adjusted earnings per share</i>	7			<i>18.0p</i>			<i>26.1p</i>	<i>29.1p</i>
<i>Dividends per share</i>	6			<i>4.0p</i>			<i>6.0p</i>	<i>19.0p</i>
<i>Net assets per share</i>				<i>147p</i>			<i>189p</i>	<i>168p</i>
<i>Net assets per share excluding net pension liabilities</i>				<i>204p</i>			<i>246p</i>	<i>232p</i>
<i>Fixed charges cover – times</i>	8			<i>1.5x</i>			<i>1.8x</i>	<i>1.4x</i>
<i>Dividend cover before exceptional items and goodwill amortisation - times</i>				<i>4.4x</i>			<i>4.3x</i>	<i>1.5x</i>
<i>Tax rate – before exceptional items and goodwill amortisation – continuing operations</i>	5			<i>30%</i>			<i>27%</i>	<i>26%</i>

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Group Balance Sheet As at 29 February 2004

£m	Note	At 29 Feb 2004	At 28 Feb 2003 As restated	At 31 Aug 2003 As restated
Fixed assets				
Goodwill		220	228	228
Fixed assets	9	249	293	272
Investments	3,9	1	1	1
Total fixed assets		470	522	501
Current assets				
Stock		223	272	257
Debtors due within one year		183	209	209
Debtors due after more than one year		15	-	-
Cash at bank and in hand	10	54	67	90
		475	548	556
Creditors due within one year				
Debt	10	(24)	(34)	(20)
Other		(396)	(407)	(443)
		(420)	(441)	(463)
Net current assets		55	107	93
Total assets less current liabilities		525	629	594
Creditors due after more than one year				
Debt	10	(2)	(2)	(2)
		523	627	592
Provisions for liabilities and charges		(26)	(25)	(27)
Net assets excluding pension liabilities		497	602	565
Pension liabilities	4	(138)	(138)	(156)
TOTAL NET ASSETS		359	464	409
Equity				
Share capital		139	139	139
Share premium	11	93	91	93
Capital redemption reserve	11	156	156	156
Revaluation reserve	11	4	8	4
Other reserve	3,11	(27)	(27)	(27)
Profit and loss account	3,11	(9)	92	40
Equity shareholders' funds		356	459	405
Non equity share capital		2	2	2
Shareholders' funds		358	461	407
Minority interests		1	3	2
TOTAL EQUITY		359	464	409

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Group Cash Flow Statement

For the 6 months to 29 February 2004

£m	Note	6 months to		12 months to
		29 Feb 2004	28 Feb 2003	31 Aug 2003
Cash inflow from operating activities	12	28	62	135
Returns on investment and servicing of finance		(2)	(2)	(4)
Taxation		(17)	(15)	(32)
Purchase of fixed assets		(24)	(19)	(47)
Disposal of fixed assets		-	2	26
Cash outflow from capital expenditure and financial investment		(24)	(17)	(21)
Proceeds on disposal of operations		21	-	-
Non-operating disposal costs		(12)	-	-
Acquisitions – cash consideration		-	(1)	(2)
Net cash in subsidiaries acquired		-	-	1
Cash inflow / (outflow) from acquisitions and disposals		9	(1)	(1)
Equity dividends paid		(32)	(32)	(47)
Cash (outflow) / inflow before financing		(38)	(5)	30
Premium on issue of shares		-	-	2
Purchase of own shares for employee share schemes		-	(10)	(10)
Increase / (decrease) in debt		4	(18)	(32)
Cash inflow / (outflow) from financing		4	(28)	(40)
Decrease in cash		(34)	(33)	(10)
Memorandum – Analysis of free cash flow				
<i>Profit before tax, exceptional items and goodwill amortisation</i>		65	91	102
<i>Depreciation</i>		24	27	49
<i>Movement in working capital</i>		(50)	(57)	(8)
<i>Capital expenditure on fixed assets</i>		(24)	(19)	(47)
<i>Proceeds on disposal of fixed assets</i>		-	2	1
<i>Tax paid</i>		(17)	(15)	(32)
<i>Cash spend against provisions</i>		-	(1)	(4)
Free cash flow (before dividends and investment activity)		(2)	28	61
<i>Dividends</i>		(32)	(32)	(47)
<i>Additional pension funding</i>		(12)	-	(6)
<i>Premium on issue of shares</i>		-	-	2
<i>Sale and leaseback proceeds</i>		-	-	25
<i>Proceeds on disposal of operations</i>		21	-	-
<i>Non-operating disposal costs</i>		(12)	-	-
<i>Acquisitions</i>		-	(1)	(2)
<i>Purchase of own shares for employee share schemes</i>		-	(10)	(10)
<i>Cash outflow relating to exceptional items</i>		(1)	-	(2)
Cash movement in debt		(38)	(15)	21
<i>Opening net funds</i>		68	44	44
<i>Cash in subsidiaries acquired</i>		-	-	1
<i>Currency translation movements</i>		(2)	2	2
Closing net funds	10, 12	28	31	68

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Group Statement of Total Recognised Gains and Losses

For the 6 months to 29 February 2004

£m	Note	6 months to		12 months to
		29 Feb 2004	28 Feb 2003 As restated	31 Aug 2003 As restated
(Loss) / profit attributable to shareholders		(84)	27	23
Currency translation differences		(4)	3	4
Gain / (loss) relating to pension scheme	4	14	(50)	(77)
Deferred tax attributable to pension scheme liability		(4)	15	21
UK current tax attributable to the additional pension contributions		-	-	2
Net actuarial loss on post retirement medical benefits		-	-	(2)
Total recognised losses for the period		(78)	(5)	(29)
Prior year adjustment	3	(26)		
Total recognised losses for the period since last annual report		(104)		

Reconciliation of Movements in Group Shareholders' Funds

For the 6 months to 29 February 2004

£m	Note	6 months to		12 months to
		29 Feb 2004	28 Feb 2003 As restated	31 Aug 2003 As restated
Shareholders' funds at beginning of period as previously stated		433	507	507
Prior year adjustment for UITF 38	3	(26)	(16)	(16)
Shareholders' funds at beginning of period as restated		407	491	491
Retained (losses) / earnings		(94)	12	(24)
Premium on issue of shares		-	-	2
Purchase of own shares for employee share schemes		-	(10)	(10)
Goodwill previously written off now transferred to profit and loss account for the period	2	39	-	-
Other recognised gains and losses		6	(32)	(52)
Net reduction to shareholders' funds		(49)	(30)	(84)
Shareholders' funds at end of period		358	461	407

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Notes to the Interim Financial Statements

For the 6 months to 29 February 2004

1 (a) Segmental analysis of Turnover and Operating (Losses) / Profits

£m	6 months to				12 months to	
	29 Feb 2004		28 Feb 2003		31 Aug 2003	
	Turnover	Operating Profit/(loss)	Turnover As restated	Operating Profit/(loss)	Turnover As restated	Operating Profit/(loss)
Continuing operations:						
Retailing (note a)						
WHSmith High Street	687	43	691	76	1,164	73
UK Travel Retail	142	9	137	8	291	19
WHSmith Online	5	(1)	5	(1)	8	(2)
UK Retailing	834	51	833	83	1,463	90
ASPAC Retail	97	7	81	5	149	5
Total Retailing	931	58	914	88	1,612	95
Publishing	81	11	77	11	143	19
WHSmith News Distribution	587	17	550	15	1,115	32
Internal sales (note b)	(68)	-	(67)	-	(131)	-
Support costs	-	(7)	-	(6)	-	(14)
Pensions service costs (note c)	-	(8)	-	(7)	-	(13)
Internal rents (note d)	-	1	-	1	-	3
Before exceptional items and goodwill amortisation	1,531	72	1,474	102	2,739	122
Operating exceptional items (Note 2)	-	(75)	-	-	-	(18)
Goodwill amortisation	-	(1)	-	(1)	-	(3)
Turnover / Operating (loss) / profit - continuing operations	1,531	(4)	1,474	101	2,739	101
Discontinued operations:						
Before exceptional items and goodwill amortisation	49	(5)	90	(9)	181	(16)
Operating exceptional items (Note 2)	-	-	-	(35)	-	(35)
Goodwill amortisation	-	-	-	(1)	-	(1)
Turnover / Operating loss - discontinued operations	49	(5)	90	(45)	181	(52)
Group Turnover / Operating (loss) / profit	1,580	(9)	1,564	56	2,920	49

- a) Like for like sales for UK Retailing (adjusted for selling space) in the 6 months to 29 February 2004 were flat (consisting of WHSmith High Street down 1%, UK Travel Retail up 4% and WHSmith Online up 4%). Like for like sales for ASPAC Retail were up 2%.
- b) Internal sales comprise sales to Group companies by WHSmith News Distribution £56m (2003; £55m) and Hodder Headline £12m (2003; £12m).
- c) The annual pension service costs have been allocated between the businesses based on pensionable salaries as follows: WHSmith High Street £4.0m (2003; £3.5m), UK Travel Retail £0.6m (2003; £0.5m), Publishing £0.6m (2003; £0.5m), WHSmith News Distribution £1.7m (2003; £1.5m) and Support functions £0.6m (2003; £0.5m).
- d) The results for UK 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 (2003; £1m) is shown as a separate credit to the profit and loss account giving a nil effect to operating profit.

WH Smith PLC

Notes to the Interim Financial Statements

For the 6 months to 29 February 2004

1 (b) Geographic split of Turnover and (Loss) / Profit Before Taxation

£m	6 months to		12 months to			
	29 Feb 2004	28 Feb 2003	31 Aug 2003			
	Turnover	Profit / (loss)	Turnover As restated	Profit / (loss)	Turnover As restated	Profit / (loss)
UK / Europe	1,422	62	1,383	95	2,572	111
Asia / Pacific	109	8	91	5	167	7
	1,531	70	1,474	100	2,739	118
Exceptional operating charges (Note 2)	-	(75)	-	-	-	(18)
Goodwill amortisation	-	(1)	-	(1)	-	(3)
Profit on sale of fixed assets (Note 2)	-	-	-	-	-	7
Continuing operations	1,531	(6)	1,474	99	2,739	104
USA	49	(5)	90	(9)	181	(16)
Exceptional operating charges (Note 2)	-	-	-	(35)	-	(35)
Goodwill amortisation	-	-	-	(1)	-	(1)
Exceptional non-operating charges (Note 2)	-	(61)	-	-	-	-
Discontinued operations	49	(66)	90	(45)	181	(52)
Total Group	1,580	(72)	1,564	54	2,920	52

WH Smith PLC

Notes to the Interim Financial Statements

For the 6 months to 29 February 2004

1 (c) Analysis of Retailing Stores and Selling Space

Number of stores	1 Sept 2003	Opened	Disposed	Closed	29 Feb 2004
WHSmith High Street	545	6	-	(4)	547
UK Travel Retail	132	2	-	(3)	131
UK Retailing	677	8	-	(7)	678
ASPAC Retail	204	5	-	(7)	202
Total Retailing Businesses - Continuing	881	13	-	(14)	880
USA Travel Retail – Hotels	278	-	(278)	-	-
USA Travel Retail – Airports	160	7	(167)	-	-
Total Retailing - Discontinued	438	7	(445)	-	-
Total Retailing Businesses	1,319	20	(445)	(14)	880

Retail selling square feet (000's)	1 Sept 2003	Opened	Disposed	Closed	29 Feb 2004
WHSmith High Street	3,034	49	-	(24)	3,059
UK Travel Retail	212	3	-	(3)	212
UK Retailing	3,246	52	-	(27)	3,271
ASPAC Retail	778	10	-	(14)	774
Total Retailing Businesses - Continuing	4,024	62	-	(41)	4,045
USA Travel Retail – Hotels	286	-	(286)	-	-
USA Travel Retail – Airports	154	11	(165)	-	-
Total Retailing - Discontinued	440	11	(451)	-	-
Total Retailing Businesses	4,464	73	(451)	(41)	4,045

WH Smith PLC

Notes to the Interim Financial Statements

For the 6 months to 29 February 2004

2. Exceptional Items

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

£m	<u>6 months to</u>		<u>12 months to</u>
	29 Feb 2004	28 Feb 2003	31 Aug 2003
UK Retailing Operational & Financial Review (note a)			
- Stock write down	(45)	-	-
- Impairment of intangible and tangible assets	(17)	-	(6)
- Other items	(4)	-	-
Publishing unearned author advances provision (note b)	(9)	-	-
Surplus property provision	-	-	(12)
USA impairment	-	(35)	(35)
	(75)	(35)	(53)

a) UK Retailing Operational & Financial Review

As a result of a detailed review, we have written down £45m in the carrying value of stock. This reflects redundant and slow moving items, particularly as a result of the substantial slow down in the sales of certain entertainment product categories.

Fixed asset impairments of £17m include the recent costs of research work on our concept store and systems development for UK Travel Retail. This impairment charge also covers goodwill and assets in relation to WHSmith Online.

b) Publishing unearned author advances provision

An exceptional provision of £9m has been charged to ensure that the balance sheet correctly reflects an up-to-date view of the future sales prospects of backlist titles published in previous years.

The tax effect of the exceptional items is disclosed in note 5 to the accounts.

(a) (ii) Exceptional items in the prior year

Further impairment and write down of USA Travel Retail assets

In the six months to February 2003, the Board reviewed the carrying value of the assets of the USA Travel Retail business and concluded that further material impairment had occurred. An exceptional charge of US\$55m (£35m) was booked in the 2003 first half results. The charge was applied against goodwill US\$15m (£9m) and fixed assets US\$40m (£26m). As a result, the carrying value of USA Travel Retail assets in the balance sheet at 28 February 2003 was written down to US\$68m (£43m).

Surplus property provision

As a result of a sub-tenant default and a deterioration in the London commercial property market in the year to 31 August 2003, a requirement arose to significantly increase the provision for onerous leases. Following a review of the provision at the year end, it was increased to £12m.

Write down of fixed assets

In the year to 31 August 2003, WHSmith High Street wrote down surplus fixed assets of £6m related to loss making stores and other sundry impaired short life assets.

WH Smith PLC

Notes to the Interim Financial Statements

For the 6 months to 29 February 2004

(b) (i) Non-operating exceptional items in the current year

USA Travel Retail disposal

During the period, the Group has disposed of its USA Travel Retail Airport and Hotel businesses. A financial summary of the disposal of USA Travel Retail is as follows:

£m	USA Hotels	USA Airports	Total
Fixed Assets	-	9	9
Stock	7	8	15
Debtors	2	8	10
Creditors	(1)	-	(1)
Total assets	8	25	33
Minority interest	-	(1)	(1)
Net assets disposed	8	24	32
Cash	-	20	20
Deferred consideration (see below)	7	12	19
Total consideration	7	32	39
Net assets disposed	(8)	(24)	(32)
Net liabilities retained	(8)	(15)	(23)
Transaction costs	(1)	(5)	(6)
Loss before goodwill	(10)	(12)	(22)
Goodwill previously written off to reserves			(39)
Loss on sale of discontinued operations			(61)

Deferred consideration

- USA Travel Retail – Hotels

Deferred consideration in respect of the Hotel business sale to Travel Traders LLC consists of a loan note which is interest bearing, with a 5 per cent coupon conditional on the trading cash flows of that company.

- USA Travel Retail – Airports

Deferred consideration in respect of the Airport business sale to Hudson Group consists of an interest bearing loan note with a 5 per cent coupon, with interest accruing from the second year.

ASPAC Retail disposals

The Group also disposed of its investment in Books and More NZ Limited, University Bookshop (Otago) Ltd and University Bookshop Canterbury Limited for a total consideration of £1.3m. The total investments disposed and associated costs were £1.0m and there was £0.3m profit on disposal.

(b) (ii) Non-operating exceptional items in the prior year - sale of fixed assets

In August 2003, WHSmith High Street completed the sale and leaseback of twenty freehold properties and sold a further four freehold properties. The profit on the sale of these properties was £6m. ASPAC Retail also completed the sale and leaseback of three properties in New Zealand. The profit on the sale of these properties was £1m.

WH Smith PLC

Notes to the Interim Financial Statements

For the 6 months to 29 February 2004

3. Prior period adjustments

Urgent Issues Task Force Abstract 38 "Accounting for ESOP Trusts" (UITF 38) has been adopted with effect from 1 September 2003. The adoption of UITF 38 requires that an entity's own shares held in an ESOP Trust to be deducted in arriving at shareholders' funds.

The Group has adopted Application Note G "Revenue Recognition" to Financial Reporting Standard 5 "Substance of Transactions" ("FRS 5 ANG"). The key impacts of this amendment for the Group are set out below:

- FRS 5 ANG states that turnover excludes the sales value of estimated returns. Accordingly the provision for estimated refunds, which represents the cumulative estimate that will be returned and refunded after the period end, has now been deducted from turnover.
- FRS 5 ANG states that turnover should be recorded net of discounts. Accordingly, discounts provided to customers and staff (including loyalty scheme costs) previously shown as deductions against gross margin, have been reclassified as deductions against turnover.
- Other ancillary income previously deducted from administration costs have now been reclassified as part of turnover.

(i) Consolidated balance sheet

The table below sets out the impact of the adoption of UITF 38 on the balance sheet as at 28 February 2003 and 31 August 2003. There has been no impact on net assets arising from the adoption of FRS 5 ANG.

£m	Investments	Other reserve	Profit and loss account
At 28 February 2003	27	-	91
Adoption of UITF 38	(26)	(27)	1
28 February 2003 restated	1	(27)	92

£m	Investments	Other reserve	Profit and loss account
At 31 August 2003	27	-	39
Adoption of UITF 38	(26)	(27)	1
31 August 2003 restated	1	(27)	40

The above restatement has reduced the net assets of the group by £26m.

(ii) Consolidated profit and loss account

Under UITF 38, impairment in the carrying value of shares is no longer charged to the profit and loss account, and as such, a prior year adjustment of £1m in respect of previous years' impairments has been made. If the previous policy had been continued in the current period, the impact on profit before and after tax would have been £nil.

In accordance with the change in accounting policy to adopt FRS 5 ANG, group turnover for the period ended 28 February 2003 has been restated from £1,556m to £1,564m, and for the year ended 31 August 2003 has been restated from £2,900m to £2,920m. There has been no impact on profit before tax or profit after tax in respect of the restatements relating to FRS 5 ANG for both the period ended 28 February 2003 and the year ended 31 August 2003. If the previous policy had been continued in the current period, the impact on profit before and after tax would have been £nil.

WH Smith PLC

Notes to the Interim Financial Statements

For the 6 months to 29 February 2004

4. Pensions Arrangements

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:

£m	At 29 Feb 2004	At 28 Feb 2003 As restated	At 31 Aug 2003
Total market value of assets	672	558	631
Present value of scheme liabilities	(862)	(752)	(846)
Deficit in the scheme	(190)	(194)	(215)
Related deferred tax asset	57	58	64
Net defined benefit scheme liabilities	(133)	(136)	(151)
Net retirement medical benefit liabilities	(5)	(2)	(5)
Net pension liabilities	(138)	(138)	(156)

Under FRS 17 ("Retirement Benefits"), 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 2003.

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.

Movement in scheme deficit during the period

£m	At 29 Feb 2004	At 28 Feb 2003 As restated	At 31 Aug 2003
At beginning of period	(215)	(144)	(144)
Current service cost	(8)	(7)	(13)
Contributions	22	9	22
Interest cost	(2)	(2)	(3)
Loss on curtailment	(1)	-	-
Actuarial gain / (loss)	14	(50)	(77)
Deficit in scheme	(190)	(194)	(215)

WH Smith PLC

Notes to the Interim Financial Statements

For the 6 months to 29 February 2004

5. Taxation

£m	6 months to		12 months to
	29 Feb 2004	28 Feb 2003	31 Aug 2003
Corporation tax on UK profits	21	24	40
- Standard rate of UK corporation tax 30% (2003; 30%)			
Adjustment in respect of prior year UK corporation tax	-	-	(6)
Foreign tax	2	2	1
Total current tax charge	23	26	35
Deferred tax	(2)	1	(4)
Tax on profit on ordinary activities before exceptional items and goodwill amortisation	21	27	31
Tax on exceptional items	(9)	-	(2)
Tax on profit on ordinary activities after exceptional items and goodwill amortisation	12	27	29
<i>Effective tax rate before exceptional items and goodwill amortisation – continuing operations</i>	30%	27%	26%

6. Dividends

	6 months to		12 months to
	29 Feb 2004	28 Feb 2003	31 Aug 2003
Interim	4.0p	6.0p	6.0p
Final			13.0p
Total			19.0p
£m			
Interim	10	15	15
Final			32
Total			47

The interim dividend will be paid on 24 June 2004 to shareholders registered at the close of business on 28 May 2004. As at 29 February 2004 the Company had 250,543,733 shares in issue.

WH Smith PLC

Notes to the Interim Financial Statements

For the 6 months to 29 February 2004

7. Earnings Per Share

	6 months to		12 months to
	29 Feb 2004	28 Feb 2003	31 Aug 2003
(Loss) / profit attributable to shareholders (£m)	(84)	27	23
Exceptional items net of related taxation	127	35	44
Goodwill amortisation	1	2	4
Adjusted earnings (£m)	44	64	71
Weighted average shares in issue for earnings per share (m)	244	245	244
Add weighted average number of ordinary shares under option	-	-	-
Weighted average ordinary shares for fully diluted earnings per share (m)	244	245	244
(Loss) / earnings per share – Basic	(34.4)p	11.0p	9.4p
(Loss) / earnings per share – Diluted	(34.4)p	11.0p	9.4p
Adjusted earnings per share – Basic	18.0p	26.1p	29.1p
Adjusted earnings per share – Diluted	18.0p	26.1p	29.1p

The weighted number of ordinary shares in issue is stated after excluding 6,682,660 shares held solely for the purpose of satisfying obligations under employee share schemes.

8. Fixed Charges Cover

£m	6 months to		12 months
	29 Feb 2004	28 Feb 2003	31 Aug 2003
Interest expense	2	2	4
Operating lease rentals	91	95	206
Property taxes	18	18	36
Other property costs	16	7	13
Total fixed charges	127	122	259
Profit before tax, exceptional items and goodwill amortisation	65	91	102
Profit before tax, exceptional items, goodwill amortisation and fixed charges	192	213	361
Fixed charges cover	1.5x	1.8x	1.4x

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

WH Smith PLC

Notes to the Interim Financial Statements

For the 6 months to 29 February 2004

9. Fixed Assets

(a) Changes in Fixed Assets

£m	Fixed Assets	Costs of shares acquired for employee share schemes	Investment in associated undertakings	Total
Net Book Value at 1 September 2003	272	26	1	299
Prior year adjustment on adoption of UITF 38	-	(26)	-	(26)
Restated Net Book Value at 1 September 2003	272	-	1	273
Additions	24	-	-	24
Disposals	(11)	-	-	(11)
Depreciation	(24)	-	-	(24)
Impairment charge in the period	(10)	-	-	(10)
Currency translation differences	(2)	-	-	(2)
Net Book Value at 29 February 2004	249	-	1	250

(b) Analysis of Fixed Assets

£m	At 29 Feb 2004	At 28 Feb 2003	At 31 Aug 2003
Freehold and long leasehold property	24	39	24
Short leasehold	82	100	90
Fixtures, fittings and equipment	143	154	158
Net Book Value	249	293	272

10. Financial Assets and Liabilities

£m	At 29 Feb 2004	At 28 Feb 2003	At 31 Aug 2003
Cash at bank and in hand	54	67	90
Repayable within one year or on demand	(24)	(34)	(20)
Repayable in more than five years	(2)	(2)	(2)
Net Funds	28	31	68

WH Smith PLC

Notes to the Interim Financial Statements

For the 6 months to 29 February 2004

10. Financial Assets and Liabilities (continued)

£m	At 29 Feb 2004	At 28 Feb 2003	At 31 Aug 2003
Cash at bank and in hand (note a)	54	67	90
Debt			
- Sterling floating rate (note b)	(24)	(34)	(20)
- Sterling fixed rate (note c)	(2)	(2)	(2)
Net Funds	28	31	68

- a) Cash at bank is held on short-term deposit, bearing interest at an average rate of 3.6% (2003; 3.8%). Material foreign exchange exposure at 29 February 2004 relates to the financial assets and liabilities in Hodder Headline, UK Travel Retail and ASPAC Retail. Cash at bank and in hand includes £6m (2003; £1m) worth of US dollars, £16m (2003; £11m) in Australian dollars, £6m (2003; £9m) in New Zealand dollars, £1m (2003; £1m) in Singapore dollars, £1m (2003; £1m) in Hong Kong dollars and £1m (2003; £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. At 29 February 2004, the Group had unutilised multi-currency revolving committed facilities of £195m, of which £62m bears an interest rate of LIBOR plus 45 basis points and is repayable May 2004, and £133m which bears an interest rate of LIBOR plus 50 basis points and expires in May 2007.
- c) Sterling fixed rate debt includes 5.125% redeemable unsecured loan stock of £2m (2003; £2m).
- d) In addition to the above, at 29 February 2004, the Group had unredeemed 'B' shares of £2m which carry a non-cumulative preferential dividend set at 75% of six month LIBOR.

11. Reserves

£m	Share premium account	Capital redemption reserve	Revaluation reserve	Other reserve	Profit and loss account
At 1 September 2003 as previously stated	93	156	4	-	39
Prior period restatement for UITF 38	-	-	-	(27)	1
At 1 September 2003	93	156	4	(27)	40
Loss retained for the period	-	-	-	-	(94)
Currency translation differences	-	-	-	-	(4)
Goodwill previously written off	-	-	-	-	39
Reserves excluding current period pension deficit at 29 February 2004	93	156	4	(27)	(19)
Current period net pension deficit adjustment	-	-	-	-	10
Reserves at 29 February 2004	93	156	4	(27)	(9)

The profit and loss account reserve at 29 February 2004 is stated after previously writing off acquired goodwill of £19m (2003; £58m).

WH Smith PLC

Notes to the Interim Financial Statements

For the 6 months to 29 February 2004

12. Notes to the Cash Flow Statement

(a) Reconciliation of operating (loss) / profit to net cash inflow from operating activities

£m	6 months to		12 months to
	29 Feb 2004	28 Feb 2003	31 Aug 2003
Operating (loss) / profit	(9)	56	49
Additional pension funding (note a)	(12)	-	(6)
Operating exceptional items	75	35	53
Depreciation of fixed assets	24	27	49
Goodwill amortisation	1	2	4
(Increase) / decrease in stock	(29)	(13)	3
Decrease / (increase) in debtors	7	(18)	(17)
(Decrease) / increase in creditors	(28)	(26)	6
Cash spend against provisions	-	(1)	(4)
Net cash inflow from operating activities before exceptional items	29	62	137
Cash outflow relating to operating exceptional items (note b)	(1)	-	(2)
Net cash inflow from operating activities after exceptional items	28	62	135

- a) For the six months ended 29 February 2004, £22m (2003; £9m) cash contributions have been made to the pensions schemes. The associated profit and loss charge comprises £8m (2003; £7m) for operating costs and £2m (2003; £2m) financing charge.
- b) Cash outflow relating to operating exceptional items consists of £1m in relation to the exceptional surplus property provision.

(b) Reconciliation of net cash flow to movement in net cash

£m	6 months to		12 months to
	29 Feb 2004	28 Feb 2003	31 Aug 2003
Net funds at the start of the period	68	44	44
Decrease in cash in the period	(34)	(33)	(10)
Currency translation differences	(2)	2	2
Cash flow from (increase) / decrease in debt	(4)	18	32
Net funds at the end of the period	28	31	68

WH Smith PLC

Notes to the Interim Financial Statements

For the 6 months to 29 February 2004

13. Transactions with related parties

USA Travel Retail - Hotels

The CEO of Travel Traders LLC is Sean Anderson who was Chairman of WHSmith Inc, WH Smith PLC's US subsidiary, until September 2003, and he holds a 30% stake in Travel Traders LLC. The total consideration of £7m for the USA Travel Retail Hotel Business was satisfied by way of an interest bearing loan note with a 5 per cent coupon, conditional on the trading cash flows of Travel Traders LLC. Additionally WH Smith Group Holdings (USA) Inc. holds a 15% equity interest in Travel Traders LLC and the Group is providing a loan facility of up to £4m to the new company.

14. Post Balance Sheet Event

Subsequent to the balance sheet date, the company has announced plans for internal restructuring of its UK Retailing and Group Head Office functions, leading to a material reduction in the number of staff at its London and Swindon locations. The total redundancy and associated costs of this programme are estimated to be £11m. Of this amount, £1m has been included within these accounts, and £10m will be charged in the second half of the year.

15. Basis of Preparation

The interim announcement for the 6 months to 29 February 2004 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 2003 with the exception of the adoption of UITF 38 "Accounting for ESOP Trusts" and Application Note G "Revenue recognition" to Financial Reporting Standard 5 "Substance of Transactions". 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 2003. 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.

16. Approval of Interim Statement

The Interim Statement was approved by the Board of Directors on 22 April 2004.

Deloitte & Touche LLP 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, Reconciliation of movement in group shareholders' funds and extracts of notes 1, and notes 2, 3, 5, 6, 7, 12, 13, 14, 15 and 16 of this document.

The Interim Statement will be available on WH Smith PLC's website and mailed to shareholders by 16 May 2004.

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 29 February 2004 which comprises the Group profit and loss account, the Group balance sheet, the Group cash flow statement and associated notes, the Group statement of total recognised gains and losses, Reconciliation of movement in Shareholders' funds and related notes 1 - 9. 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 29 February 2004.

Deloitte & Touche LLP
Chartered Accountants
London
22 April 2004