

12 April 2018

WH SMITH PLC
INTERIM RESULTS ANNOUNCEMENT
For the six months ended 28 February 2018

Good first half performance – well positioned for the full year

Group Financial Summary

	6 months to		%
	Feb 2018	Feb 2017	change
Group profit before tax	£82m	£83m	(1)%
Diluted earnings per share	60.9p	61.6p	(1)%
Travel trading profit*	£41m	£39m	5%
High Street trading profit*	£50m	£53m	(6)%
Group profit from trading operations*	£91m	£92m	(1)%
Interim dividend per share	16.0p	14.6p	10%
<u>Revenue performance</u>	Total	LFL*	
Travel	7%	3%	
High Street	(5)%	(4)%	
Group revenue	-%	(1)%	

Stephen Clarke, Group Chief Executive commented:

“The Group has delivered another good first half performance.

“In Travel, which is the largest part of the Group in both sales and profit, we continue to see strong sales growth, up 7%, driven by continued investment in our UK and international businesses and ongoing growth in passenger numbers. As a result, profit in Travel was up 5% in the period.

“We have also had a record period for tender wins internationally, with 26 new units won since the start of the year, including eight units in Madrid Airport and our first seven units in South America in Rio de Janeiro. We are now present in 48 airports across 27 countries.

“Our High Street business delivered a good first half performance, despite no publishing trend to match last year’s strong sales of humour books over Christmas. Stationery performed particularly well in the period, including our seasonal categories over Christmas and our 2018 fashion ranges.

“These results are only possible through the hard work of all of our teams across the business and I am very grateful for their hard work and support.

“While there is some uncertainty in the broader economic environment, we have made a good start to the second half of the financial year, increased the interim dividend by 10% and are confident in the outcome for the full year.”

* Denotes first instance of an Alternative Performance Measure (APM) term defined and explained in the Glossary on page 28.

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WH Smith PLC's Interim Results 2018 are available at www.whsmithplc.co.uk. A copy of the Interim Results 2018 will shortly be available for inspection at the UK Listing Authority, 25 The North Colonnade, London E14 5HS.

GROUP OVERVIEW

The distinct strategies of our Travel and High Street businesses continue to be successful in driving annual profit growth and creating shareholder value, together with our disciplined approach to cash generation and capital allocation.

In UK Travel, we aim to deliver high levels of sales and profit growth and good cash generation. We seek to achieve this by:

- i. driving like-for-like revenue in existing stores through improved execution and service;
- ii. investment in store environments and layouts;
- iii. a forensic store by store focus on space and category management;
- iv. winning new space and retaining existing space; and
- v. developing new formats

In International Travel, we aim to expand profitably by:

- i. winning new tenders and retaining existing space;
- ii. building critical mass in our emerging hubs;
- iii. driving like-for-like revenue in existing stores; and
- iv. by executing the same retail and operational disciplines and insights as we do in the UK

In High Street, we aim to deliver sustainable profit and, as we do in Travel, good cash generation in a constantly changing consumer environment. We seek to do this by:

- i. adopting a forensic store by store focus on space management to optimise the returns from our core categories;
- ii. driving margin growth through category mix management;
- iii. reducing our cost base to reflect our changing sales profile and productivity initiatives; and
- iv. creating value from our assets including third party partnerships that enhance our customer offer

Group Summary

Total Group revenue was flat compared to last year at £643m (2017: £643m) with Group LFL revenue down 1%.

Group profit from trading operations decreased by 1% on the prior year to £91m (2017: £92m) and Group profit before tax decreased by 1% to £82m (2017: £83m).

Travel

Travel delivered a strong performance with a good performance in all our channels. Trading profit increased by 5% to £41m (2017: £39m), which includes £4m (2017: £4m) from our growing international business where we incurred £1m in set-up costs relating to stores opening this year. Total revenue was up 7% compared to last year and up 3% on a LFL basis, driven by our investment and ongoing growth in passenger numbers. Gross margin* was up 140bps compared to last year. We continue to invest in the business and in the UK we are on track to open 15 to 20 new units this year.

Our international business continues to grow rapidly. We have won a further 26 new units since the start of the financial year, including two very significant tender wins: 8 units in the international Terminal 4 in Madrid Airport and our first units in South America, where we will open 7 units in Rio de Janeiro Galeão Airport. As at 28 February 2018 we had 258 units open internationally.

As at 28 February 2018 Travel operated from 839 units (31 August 2017: 815 units), and excluding franchise units, Travel occupies 0.6m square feet.

High Street

High Street delivered a good performance in the half with trading profit of £50m (2017: £53m), in line with guidance. As expected, LFL revenue was down 4% with total revenue down 5%. We saw a good gross margin performance, up 80bps in the period. Cost savings of £7m were delivered in the period with a further £5m identified for the second half, making a total of £12m of cost savings in the year, £3m ahead of our original plan. As at 28 February 2018 High Street operated from 610 stores (31 August 2017: 611 stores), which occupy 2.8m square feet.

Group

Diluted earnings per share decreased by 1% to 60.9p (2017: 61.6p). This reflects the slight decrease in profit, the 18% effective tax rate and a lower basic weighted average number of shares in issue following the share buyback. We expect the full year effective tax rate also to be around 18%.

The Group remains highly cash generative and has a strong balance sheet. Net debt* before finance leases was £4m (2017: £8m) and total net debt including finance leases was £15m (2017: £21m). Group free cash flow* was £39m (2017: £44m). The Group has a committed revolving credit working capital facility of £140m through to December 2022.

On 12 October 2017 the Board announced a further return of cash to shareholders of up to £50m through a rolling share buyback programme. As at 11 April we have purchased 0.4m shares, returning £8m of cash to shareholders.

The Board has declared an interim dividend of 16.0p per share, a 10% increase on last year. The increase in the interim dividend reflects the Board's confidence in the future prospects of the Group, the strong cash generative nature of the business, and the positive outlook for the full year.

Both the Travel and High Street businesses are cash generative and we allocate our capital efficiently: investing in the business and new opportunities (capital expenditure in the period was £26m with capital expenditure for the full year expected to be around £50m), and making appropriate acquisitions whilst consistently growing dividends and returning cash to shareholders as part of our long-term strategy to create value for shareholders. Including the share buyback announced on 12 October 2017 and the declared interim dividend, since our 2007 financial year, we will have returned over £900m of cash to shareholders, increased the dividend every year and reduced our issued share capital by 40%.

Financial Year	Ordinary Dividend £m¹	Buyback £m³	Special Dividend £m	Total £m
2018	54 ²	50 ⁴	-	104
2017	50	41	-	91
2016	46	47	-	93
2015	42	54	-	96
2014	38	41	-	79
2013	34	50	-	84
2007 - 2012	147	173	57	377
	411	456	57	924

¹ Cash dividend paid

² Cash dividend paid and interim dividend declared

³ Buyback in financial year

⁴ Buyback announced on 12 October 2017

Trading Operations

Travel

Travel delivered a strong first half with trading profit up 5% to £41m (2017: £39m). Total revenue was up 7% with LFL revenue up 3% on a constant currency basis.

Whilst the increase in passenger numbers continues to be an important driver of growth, we are well placed to take advantage of the structural growth opportunities in our markets by:

- i. focusing in our existing stores on improved execution and customer service; investment in store layouts; space and category management
- ii. developing new formats and opening new space in the UK, and
- iii. expanding profitably overseas

Travel - UK

We delivered another strong revenue performance across all our key channels driven by our continued investment and the ongoing growth in passenger numbers. In air, total revenue was up 6% with LFL revenue up 5%; in rail, total and LFL revenue was flat (including a c.1% impact from snow and ongoing disruption from network upgrades), and in hospitals, total revenue was up 9% with LFL revenue up 4%. Gross margin increased by 140bps during the period, driven by mix.

Retail space in travel locations is often very constrained, it varies substantially by channel and location and is expensive. We seek to maximise the return from every square metre of this space through our detailed analysis of the space and category elasticities of each square metre of display space. This, along with our operational capabilities to make space changes three or four times a year even in our busiest stores, means we are able to respond to the changes in our customers' needs, growth opportunities and adapt to seasonal variations. This process has, over the years, led to a significant evolution of our formats and ranges.

During the half, we have continued to develop our 'Tech Express' format and book offer, including enhanced customer service through the training of specialist staff for these categories. Across our channels, we have also further improved our food offer by extending our healthy eating options to include protein bars and wraps. We anticipate opening a further 3 standalone bookshops in the second half. These dedicated bookshops provide a specialist customer experience with a unique look and feel and have been well received by customers, publishers and landlords. We now have 9 bookshops open in air and rail.

During the period, we have continued to invest and focus on developing new formats that position us well for the future. Analysis shows that we can deliver superior average transaction value and sales per passenger from larger store footprints as a result of improved customer circulation which drives customer conversion. Our first UK store showcasing this new, large airport format opened in Gatwick Airport South Terminal in December 2017 and we are very pleased with the customer and landlord reaction. Both the new store design and increase in sales per passenger are helping us to renew and extend existing contracts, secure new stores, and extend our footprint in existing stores. During the second half, we will open a new store in Gatwick North Terminal and convert our existing stores in Heathrow Terminal 3 and Terminal 4 to this format. We believe there will be further opportunities in UK airports going forward.

We are also investing in rail. Our recently opened store in St Pancras International Station is performing well and we would expect to open more stores using this format as space becomes available. In addition, we have created a new format for smaller regional rail stations which combines a traditional WHSmith store with a coffee offer. We have opened our first three stores in Bolton, Abbey Wood and Edgware which are trading well. This new format gives us opportunities to open stores in smaller stations in the rail network and we believe there is scope for up to 50 smaller regional rail stores over time.

Our hospital business continues to grow and we have made further investment in the period. We are pleased with results from our two trial WHSmith stores that include an M&S Food to Go range, with an emphasis on healthy eating, and a WHSmith Coffee House offer. Customer and landlord feedback has been positive. In the current financial year, we are on target to open c. 6 new hospital stores, including 4 M&S Simply Food stores in the second half. As at the end of February 2018, we now have 129 hospital stores, including 16 M&S Simply Food stores.

We are on track to open between 15 and 20 new units across all three channels in the UK this year and anticipate opening around 15 new units each year over the following two years.

Travel - International

We continue to be successful in expanding our Travel business model. In overseas markets the WHSmith brand has been well received and we are able to demonstrate that we can deliver improved performance and add value relative to the previous incumbent.

Total revenue for the half was £59m (2017: £50m), up 18% versus the previous year. LFL revenue was up 4% on a constant currency basis. Trading profit for the half was £4m, in line with the previous year, and includes around £1m of set-up costs relating to new stores in locations such as Singapore and Italy.

Our international business is growing rapidly. As at 28 February 2018 we had 258 units open. However, our share of the global news, books and convenience (NBC) travel market is still very small and we see good opportunities to grow our international business using our three economic models of directly-run, joint venture and franchise.

Since the start of the financial year, we have won a further 26 new units outside of the UK, including two very significant tender wins: 8 units in the international Terminal 4 in Madrid Airport and our first units in South America, where we will open 7 units in Rio de Janeiro Galeão Airport in partnership with Duty Free Americas who have an extensive network of stores throughout the region. Both Madrid and Rio de Janeiro are premium airports and major hubs in their respective territories with significant passenger numbers. We expect the units in Madrid to open ahead of the summer peak and anticipate the units in Rio de Janeiro will open later this year. We also won units in Australia, India, Malaysia and a further unit in Alicante in addition to our existing successful units in that airport. Together with our units in Alicante and Tenerife, the new units in Madrid will further build our presence in the Spanish market. The new units in Rio de Janeiro will be our first units in South America and represent a good opportunity for us in this new territory. Of the 258 units open, 56% are franchised, 38% direct lease and the remainder are joint venture. We will continue to use these three economic models flexibly in order to create value and win new business.

We are now present in 48 airports and 27 countries outside of the UK with 68 units open in Europe, 95 in the Middle East and India and 95 in Asia Pacific.

High Street

High Street trading profit was £50m (2017: £53m) in line with guidance, and following last year's record performance and a challenging books market for us over Christmas. Our strategy of actively managing our space to optimise our core categories, gross margin growth and good cost control continues to deliver sustainable profit and good cash generation.

As expected, High Street revenue was down 5% in total and down 4% on a LFL basis. Gross margin improved by around 80bps, through rebalancing the mix of our business, better buying, improved sourcing and markdown management.

As we do with our Travel business, we consider retail space as a strategic asset and we utilise our space to maximise profitability in the current year in ways that are sustainable for future years. We have extensive and detailed space and range elasticity data for every store, built up over many years and we utilise our space to maximise the return on every metre drop of display space in every store. We also create value through improving margins, reducing costs and driving third party income opportunities.

Nearly all our stores are located in the best retail locations in the catchments in which we operate. This, and the huge variability in the size and shape of our stores, continues to give us opportunities to reconfigure our space to deliver margin mix benefits and efficiencies in the store operating model. During the half, space changes have included further extending our Stationery ranges and providing more, better quality space in store to this category.

Our recent trials to further improve the Stationery category in our larger stores have worked well. In our Reading store, we have seen a strong performance across stationery and cards with fashion stationery and Apple accessories proving particularly popular. Our extended art and pen departments have also proven to be very successful. During the half, we extended the trial to a further five stores in Winchester, Cheltenham, Thurrock, Salisbury and the Trafford Centre, Manchester. We will closely monitor the results of these additional trial stores and, at the same time, develop a trial for smaller stores.

Stationery remains an important area of investment in our High Street business and now generates half our High Street sales and 60% of store contribution. The market for stationery remains robust, particularly for fashion stationery and our seasonal stationery ranges all performed well over Christmas. The category has good economics and growth potential. Our in-house design capabilities for product and packaging; the quality, breadth and depth of our ranges; our ability to source competitively through our Far East sourcing office; and our promotional offers and scale mean we can differentiate ourselves in this category.

We are growing our stationery business beyond our stores:

- i. During the period, we acquired Cultpens.com. Cultpens.com is a leading online specialist pen retailer with over 18,000 products. This acquisition complements our existing stationery ranges in both our high street stores and online at whsmith.co.uk as well as enhancing our customer offer.
- ii. Our online personalised greetings card business, Funkypigeon.com, continued to perform well over the key seasons delivering good revenue and profit growth. Following further investment in the website and apps we have seen good growth in our volume of traffic and we continue to see good conversion, particularly for mobile devices. Our extended gifting ranges performed well and our new fulfilment centre in Guernsey enabled us to meet record levels of demand for both gifting and greeting cards.
- iii. We have developed our stationery business further by signing a new supply agreement with Post Office Limited. The agreement will run for five years with WHSmith stationery ranged and sold in 175 Directly Managed Post Offices across the country. We expect the rollout to all 175 Directly Managed Post Offices to be completed in the second half. This agreement strengthens our partnership with the Post Office. We now have 168 Post Offices open within our High Street stores including 135 franchises and 33 run by Post Office Ltd under a concession agreement.

Driving efficiencies remains a core part of our strategy and we focus on all areas of cost in the business. We continue to deliver savings as part of our cost efficiency programme whilst adjusting our variable costs to sales. We achieved cost savings of £7m in the half and expect to deliver £5m of cost savings in the second half, giving a total of £12m of cost savings for the year. These savings come from right across the business, including rent savings at lease renewal, marketing efficiencies and productivity gains from our distribution centres.

Category Performance

Stationery:

Our strategy to build on our market leading position in Stationery remains unchanged. Like-for-like revenue was up 3%, with gross margin also higher than last year. During the half, Stationery has continued to be the main beneficiary of space with more stores benefitting from additional space towards the front of store and further range improvements. This additional space, combined with our range development initiatives drove good like-for-like sales growth over the Christmas period in calendars, single Christmas cards, wrap, diaries, gifting, seasonal WIGIGs and decorations. Stock was managed tightly and we finished the season with a clean stock position.

Books:

In Books, the market remains fairly stable, however the quality of publishing is still the biggest driver of market performance. We had a challenging Christmas period in books, particularly given the success of colour therapy titles and spoof humour books over the past two Christmas periods. There was no new publishing trend this Christmas. As a result, like-for-like sales were down 7% in the period with gross margin up compared to last year. Our approach to the books business is to focus on areas of market growth, build on our relative strengths and drive the overall net profitability of the category. During the half, we made improvements to our customer offer across books and we are seeing some encouraging results. We continue to look at how we can improve the efficiency of our books operating model, both in store and across our distribution and supply network, and expect to deliver further cost efficiencies in this area going forward. In Travel, we are making good progress with our standalone book store format and expect the latest store to open in London Bridge in May. In addition, we continue to strengthen our recommendation credentials with our in store promotions and book clubs which we recognise are key for WHSmith books customers in both Travel and High Street.

News and Impulse:

News and Impulse like-for-like sales were flat compared to last year with further improvement in gross margin. The newspaper and magazine market continues to be challenging but we held our market share. In Travel, we continue to extend our healthy eating options and, during the period, we launched a number of new snacking products, including protein bars and wraps.

Non-Operating Activities

Net Finance Costs

£m	6 months to	
	Feb 2018	Feb 2017
Bank interest	1	1
Pension interest	-	-
Net finance costs	1	1

Net finance costs relating to bank loans were £1m compared with £1m last year. The non-cash pension interest charge was £nil (2017: £nil).

Fixed Charges Cover*

Fixed charges, comprising property operating lease rentals and net finance charges, were covered 1.8 times (2017: 1.9 times) by profit before tax and fixed charges. In the full year we expect fixed charges cover to be consistent with the prior year at around 1.7 times. The difference to the half year reflects the seasonality of profits.

Cash Flow and Balance Sheet

Free cash flow reconciliation

£m	6 months to	
	Feb 2018	Feb 2017
Group operating profit	83	84
Depreciation, amortisation & impairment of fixed assets	22	21
Working capital	(27)	(25)
Employers payroll tax on exercised share awards	(2)	(2)
Capital expenditure	(26)	(23)
Tax	(13)	(14)
Share-based payments	3	3
Movement on provisions	(1)	-
Free cash flow	39	44

The Group generated free cash flow of £39m during the period. Non-cash charges from depreciation and share based payments were £1m higher than last year. The working capital cash flow is similar to last year with an outflow of £27m in the half. This was £2m higher than the first half last year, reflecting the seasonality of the business with Travel becoming a bigger part of the Group and investment in new stores as we continue to open stores in the UK and internationally. Capital expenditure in the half was £26m, £3m higher than last year. Capital expenditure includes investment in new stores in Travel including Singapore, Rome, Gatwick South and St Pancras; and ongoing investment in stores and technology. During the period we paid £2m of employers' payroll tax on exercised share awards (2017: £2m). Net corporation tax paid was £13m in the period compared to £14m last year.

As at 28 February 2018 the Group had net debt of £15m, including £11m of finance lease liabilities and net overdrafts⁵ of £4m (2017: net debt of £21m including £13m of finance leases and net overdrafts⁵ of £8m).

Reconciliation of net debt

£m	6 months to	
	Feb 2018	Feb 2017
Opening net cash	16	20
Free cash flow generated	39	44
Dividend paid	(37)	(34)
Pension funding	(2)	(2)
Net purchase of shares for employee share schemes	(5)	(9)
Purchase of own shares for cancellation	(9)	(24)
Acquisition of businesses / Investment in joint ventures	(3)	-
Repayments of obligations under finance leases	(2)	(2)
Other	(1)	(1)
Net (overdraft)/cash⁵	(4)	(8)
Finance leases	(11)	(13)
Net debt	(15)	(21)

In addition to the free cash generated, the Group has seen a net outflow in relation to non-trading operations, including last year's final dividend of £37m, pension deficit funding of £2m and net ESOP trust purchases of £5m. As at 28 February 2018 the Group had returned £9m of cash to shareholders via an on market buyback, of which £8m relates to the up to £50m buyback announced on 12 October 2017. During the period the Group acquired Cultpens.com for a cash consideration of £2m and made investments in joint ventures of £1m.

⁵ Net overdrafts is Cash and cash equivalents (£36m; 2017: £37m) less bank overdrafts and other borrowings (£40m; 2017 £45m). See Condensed Group Balance Sheet on page 12.

The Group had net assets of £207m before pension liabilities and associated deferred tax assets, £15m higher than last year end, reflecting cash generation, capex investment, movement in working capital and the share buyback programme. Net assets after the pension liability and associated deferred tax asset were £202m compared to £187m at 31 August 2017.

Trading Update

The Group will issue its third quarter Trading Update on 6 June 2018.

Principal risks and uncertainties

The principal risks and uncertainties which could impact the Group for the remainder of the current financial year remain those detailed on pages 20 to 24 of the Group's Annual Report and Accounts 2017, a copy of which is available on the Group's website at www.whsmithplc.co.uk. These include: economic, political, competitive and market risks; brand and reputation; key suppliers and supply chain management; store portfolio; business interruption; reliance on key personnel; international expansion; treasury, financial and credit risk management; and cyber risk and data security.

This announcement contains inside information which is disclosed in accordance with the Market Abuse Regulations.

This announcement contains certain forward looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results to differ from those anticipated. Nothing in this announcement should be construed as a profit forecast. We undertake no obligation to update any forward looking statements whether as a result of new information, future events or otherwise.

WH Smith PLC
Condensed Group Income Statement
For the 6 months to 28 February 2018

£m	Note	6 months to 28 Feb 2018 (unaudited)	6 months to 28 Feb 2017 (unaudited)	12 months to 31 Aug 2017 (audited)
Revenue	2	643	643	1,234
Group operating profit	2	83	84	142
Finance costs	4	(1)	(1)	(2)
Profit before tax		82	83	140
Income tax expense	5	(15)	(14)	(24)
Profit for the period		67	69	116
Earnings per share				
Basic	7	61.5p	62.2p	104.5p
Diluted	7	60.9p	61.6p	103.6p
Equity dividends per share¹	6	16.0p	14.6p	48.2p
<u>Alternative Performance Measures (see Glossary on page 28)</u>				
Fixed charges cover	8	1.8x	1.9x	1.7x

¹ Current period dividend per share is the interim dividend.

WH Smith PLC
Condensed Group Statement of Comprehensive Income
For the 6 months to 28 February 2018

£m	Note	6 months to 28 Feb 2018 (unaudited)	6 months to 28 Feb 2017 (unaudited)	12 months to 31 Aug 2017 (audited)
Profit for the period		67	69	116
Other comprehensive (loss) / income:				
Items that will not be reclassified subsequently to the income statement:				
Actuarial losses on defined benefit pension schemes	3	(2)	(2)	(2)
		(2)	(2)	(2)
Items that may be reclassified subsequently to the income statement:				
(Losses) / gains on cash flow hedges				
- Net fair value (losses) / gains		(1)	-	-
- Reclassified and reported in the income statement		-	-	(2)
Exchange differences on translation of foreign operations		(3)	1	2
		(4)	1	-
Other comprehensive loss for the period, net of tax		(6)	(1)	(2)
Total comprehensive income for the period		61	68	114

WH Smith PLC
Condensed Group Balance Sheet
As at 28 February 2018

£m	Note	At 28 Feb 2018 (unaudited)	At 28 Feb 2017 (unaudited)	At 31 Aug 2017 (audited)
Non-current assets				
Goodwill		40	38	38
Other intangible assets		30	26	29
Property, plant and equipment		166	161	164
Investments in joint ventures		2	1	1
Deferred tax assets		8	9	8
Trade and other receivables		5	6	6
		251	241	246
Current assets				
Inventories		155	147	150
Trade and other receivables		58	51	54
Derivative financial assets	14	-	2	-
Cash and cash equivalents	10	36	37	38
		249	237	242
Total assets		500	478	488
Current liabilities				
Trade and other payables		(211)	(207)	(232)
Bank overdrafts and other borrowings	10	(40)	(45)	(22)
Derivative financial liabilities	14	(1)	-	-
Retirement benefit obligations	3	(1)	(1)	(1)
Obligations under finance leases	10	(4)	(4)	(4)
Current tax liabilities		(14)	(16)	(12)
Short-term provisions		(1)	(1)	(1)
		(272)	(274)	(272)
Non-current liabilities				
Retirement benefit obligations	3	(5)	(6)	(5)
Long-term provisions		(3)	(5)	(4)
Obligations under finance leases	10	(7)	(9)	(8)
Other non-current liabilities		(11)	(12)	(12)
		(26)	(32)	(29)
Total liabilities		(298)	(306)	(301)
Total net assets		202	172	187
Shareholders' equity				
Called up share capital	12	24	25	24
Share premium		6	6	6
Capital redemption reserve		13	12	13
Revaluation reserve		2	2	2
ESOP reserve		(4)	(10)	(9)
Hedging reserve		(1)	2	-
Translation reserve		(1)	1	2
Other reserve		(267)	(256)	(257)
Retained earnings		430	390	406
Total equity		202	172	187

WH Smith PLC
Condensed Group Cash Flow Statement
For the 6 months to 28 February 2018

£m	Note	6 months to		12 months to
		28 Feb 2018 (unaudited)	28 Feb 2017 (unaudited)	31 Aug 2017 (audited)
Operating activities				
Cash generated from operating activities	11	63	65	149
Interest paid		-	-	(1)
Net cash inflow from operating activities		63	65	148
Investing activities				
Purchase of property, plant and equipment		(21)	(19)	(39)
Purchase of intangible assets		(5)	(4)	(9)
Acquisition of businesses		(2)	-	-
Acquisition of investments in joint ventures		(1)	-	-
Net cash outflow from investing activities		(29)	(23)	(48)
Financing activities				
Dividend paid	6	(37)	(34)	(50)
Purchase of own shares for cancellation		(9)	(24)	(40)
Purchase of own shares for employee share schemes		(5)	(9)	(9)
Proceeds from borrowings		18	27	4
Revolving credit facility arrangement fees		-	(1)	(1)
Repayments of obligations under finance leases		(2)	(2)	(4)
Net cash outflow from financing activities		(35)	(43)	(100)
Net decrease in cash and cash equivalents in the period		(1)	(1)	-
Opening cash and cash equivalents		38	38	38
Effect of movements in foreign exchange rates		(1)	-	-
Closing cash and cash equivalents		36	37	38

Reconciliation of net cash flow to movement in net (debt) / funds

£m	Note	6 months to		12 months to
		28 Feb 2018 (unaudited)	28 Feb 2017 (unaudited)	31 Aug 2017 (audited)
Net funds at beginning of the period		4	7	7
Net decrease in cash and cash equivalents		(1)	(1)	-
Increase in debt		(18)	(27)	(4)
Net movement in finance leases		1	-	1
Effect of movements in foreign exchange rates		(1)	-	-
Net (debt) /funds at end of the period	10	(15)	(21)	4

WH Smith PLC
Condensed Group Statement of Changes in Equity
For the 6 months to 28 February 2018

£m	Called up share capital and share premium	Capital redemption reserve	Revaluation reserve	ESOP reserve	Hedging and translation reserves ¹	Other reserve ²	Retained earnings	Total equity
Balance at 1 September 2017	30	13	2	(9)	2	(257)	406	187
Profit for the period	-	-	-	-	-	-	67	67
Other comprehensive income/(expense):								
Actuarial losses on defined benefit pension schemes	-	-	-	-	-	-	(2)	(2)
Cash flow hedges	-	-	-	-	(1)	-	-	(1)
Exchange differences on translation of foreign operations	-	-	-	-	(3)	-	-	(3)
Total comprehensive income for the period	-	-	-	-	(4)	-	65	61
Recognition of share-based payments	-	-	-	-	-	-	3	3
Current tax on share-based payments	-	-	-	-	-	-	1	1
Dividends paid (Note 6)	-	-	-	-	-	-	(37)	(37)
Employee share schemes	-	-	-	5	-	(10)	-	(5)
Purchase of own shares for cancellation	-	-	-	-	-	-	(8)	(8)
Balance at 28 February 2018 (unaudited)	30	13	2	(4)	(2)	(267)	430	202
Balance at 1 September 2016	31	12	2	(10)	2	(247)	378	168
Profit for the period	-	-	-	-	-	-	69	69
Other comprehensive income/(expense):								
Actuarial losses on defined benefit pension schemes	-	-	-	-	-	-	(2)	(2)
Exchange differences on translation of foreign operations	-	-	-	-	1	-	-	1
Total comprehensive income for the period	-	-	-	-	1	-	67	68
Recognition of share-based payments	-	-	-	-	-	-	3	3
Premium on issue of shares	-	-	-	-	-	-	1	1
Dividends paid (Note 6)	-	-	-	-	-	-	(34)	(34)
Employee share schemes	-	-	-	-	-	(9)	-	(9)
Purchase of own shares for cancellation	-	-	-	-	-	-	(25)	(25)
Balance at 28 February 2017 (unaudited)	31	12	2	(10)	3	(256)	390	172
Balance at 1 September 2016	31	12	2	(10)	2	(247)	378	168
Profit for the year	-	-	-	-	-	-	116	116
Other comprehensive income/(expense):								
Actuarial losses on defined benefit pension schemes	-	-	-	-	-	-	(2)	(2)
Cash flow hedges	-	-	-	-	(2)	-	-	(2)
Exchange differences on translation of foreign operations	-	-	-	-	2	-	-	2
Total comprehensive income for the year	-	-	-	-	-	-	114	114
Recognition of share-based payments	-	-	-	-	-	-	5	5
Current tax on share-based payments	-	-	-	-	-	-	1	1
Deferred tax on share-based payments	-	-	-	-	-	-	(1)	(1)
Dividends paid (Note 6)	-	-	-	-	-	-	(50)	(50)
Employee share schemes	-	-	-	1	-	(10)	-	(9)
Purchase of own shares for cancellation	(1)	1	-	-	-	-	(41)	(41)
Balance at 31 August 2017 (audited)	30	13	2	(9)	2	(257)	406	187

¹ Included within the Hedging and Translation reserves is a cumulative loss of £1m (28 February 2017: cumulative gain of £1m) relating to foreign currency translation.

² The 'Other' reserve includes reserves created in relation to the historical capital reorganisation, proforma restatement and the demerger from Connect Group PLC (formerly Smiths News PLC) in 2006, as well as movements relating to employee share schemes of £10m (28 February 2017: £9m).

WH Smith PLC
Notes to the Condensed Interim Financial Statements
For the 6 months to 28 February 2018

1. Basis of preparation, Accounting policies and Approval of Interim Statement

The Condensed Interim Financial Statements for the 6 months ended 28 February 2018 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34, "Interim Financial Reporting" as adopted by the European Union. This report should be read in conjunction with the Group's Annual Report and Accounts 2017, which have been prepared in accordance with IFRSs as adopted by the European Union.

The financial information set out in this report does not constitute statutory accounts within the meaning of section 435 of the Companies Act 2006. The Annual Report and Accounts 2017 have been filed with the Registrar of Companies. The auditors' report on those accounts was unqualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report and did not contain statements under s498(2) or s498(3) of the Companies Act 2006.

The Condensed Interim Financial Statements have been prepared in accordance with the accounting policies set out in the 2017 Annual Report and Accounts and it is these accounting policies which are expected to be followed in the preparation of the full financial statements for the financial year ended 31 August 2018, except as outlined below.

Taxes on income in the interim period are accrued using the tax rate that would be applicable to the expected total annual profit or loss.

The Group has adopted the following standards and interpretations which became mandatory for the first time during the current financial year. The adoption of these standards has had no material impact on the Group.

Amendments to IAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to IAS 7	Changes in liabilities arising from financing activities

At the balance sheet date, there are a number of new standards and amendments to existing standards in issue but not yet effective. These include IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases'. Except as outlined below, the directors anticipate that the adoption of these standards and interpretations will have no material impact on the Group's financial statements.

IFRS 15 'Revenue from contracts with Customers' is effective for periods beginning on or after 1 January 2018. The standard establishes a principles-based approach for revenue recognition and is based on the concept of recognising revenue for obligations only when they are satisfied and the control of goods or services is transferred. It applies to all contracts with customers, except those in the scope of other standards. The Group is in the process of completing an assessment of the impact of IFRS 15 and it is anticipated that adoption will not have a material impact on the recognition and measurement of any of the Group's revenue streams.

IFRS 16 'Leases', which is effective for periods beginning on or after 1 January 2019, and has been endorsed by the EU. This standard replaces IAS 17, and will require entities to apply a single lessee accounting model, with lessees recognising right of use assets and lease liabilities on the balance sheet for all applicable leases. The Group anticipates that the adoption of IFRS 16 will have a material impact on the Income statement and Balance sheet including, operating profit, profit before tax, property plant and equipment and net debt. There is no cash impact on adoption of this standard. The Group is in the process of assessing the impact of IFRS 16 and has invested in additional resource and systems in order to assess the impact on its existing lease estate which comprises approximately 1,300 property leases, as well as equipment leases. The Group has established a project group to lead the implementation and work performed to date includes assessing the accounting impacts of the change, the process of collecting the required data from across the business and the necessary changes to systems and processes.

In order to quantify the impact of IFRS 16, management is required to make judgements on a lease-by-lease basis including, but not limited to:

- the appropriate discount rate (by reference to the interest rate implicit in the lease, or the Group's incremental borrowing rate)
- the lease term, including consideration of options to extend
- index or rate dependent variable payments that could be included in the calculation of the lease liability.

Beyond the information above, it is not practicable at this time to provide a reasonable estimate of the effect of these standards until a detailed lease-by-lease review has been completed. The undiscounted amount of the Group's operating lease commitments at 28 February 2018 disclosed under IAS 17, the current leasing standard, was £833m.

WH Smith PLC

Notes to the Condensed Interim Financial Statements

For the 6 months to 28 February 2018

1. Basis of preparation, Accounting policies and Approval of Interim Statement (continued)

Alternative performance measures

The Group has identified certain measures that it believes will assist the understanding of the performance of the business. The Group believes that High Street and Travel trading profit, Group profit from trading operations, Like-for-like sales, Fixed charges cover, Net debt and Free cash flow provide useful information to users of the financial statements. The terms are not defined terms under IFRS and may therefore not be comparable with similarly titled measures reported by other companies. They are not intended to be a substitute for, or superior to, GAAP measures. A glossary of these terms is provided in the Glossary on page 28.

Going concern

The Group's business activities together with the factors that are likely to affect its future developments, performance and position are set out in the Group Overview. The Group Overview describes the Group's financial position, cash flows and borrowing facilities and also highlights the principal risks and uncertainties facing the Group. The Annual Report and Accounts 2017 includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The directors report that they have reviewed current performance and forecasts, combined with expenditure commitments, including capital expenditure, proposed dividends and borrowing facilities. Having reassessed the principal risks, the directors have a reasonable expectation that the Group has adequate financial resources to continue its current operations, including contractual and commercial commitments. For these reasons, the directors considered it appropriate to adopt the going concern basis of accounting in preparing the interim financial information.

The Condensed Interim Financial Statements are unaudited but have been reviewed by our auditors and were approved by the Board of Directors on 12 April 2018.

2. Segmental analysis of results

For management and financial reporting purposes, the Group is organised into two operating divisions and reportable segments – High Street and Travel. The Group's operating segments are based on the reports reviewed by the Board of Directors (who are collectively considered to be the chief operating decision maker) to make strategic decisions, and allocate resources.

IFRS 8 requires segment information to be presented on the same basis as that used by the Board for assessing performance and allocating resources.

a) Group revenue

£m	6 months to		12 months to
	28 Feb 2018 (unaudited)	28 Feb 2017 (unaudited)	31 Aug 2017 (audited)
Travel	308	289	624
High Street	335	354	610
Group revenue	643	643	1,234

Seasonality

Sales in the High Street business are subject to seasonal fluctuations, with peak demand in the Christmas trading period, which falls in the first half of the Group's financial year. Sales in the Travel business are also subject to seasonal fluctuations, with higher demand during peak travel periods particularly during the summer holiday months.

WH Smith PLC

Notes to the Condensed Interim Financial Statements

For the 6 months to 28 February 2018

2. Segmental analysis of results (continued)

b) Group results

£m	6 months to		12 months to
	28 Feb 2018 (unaudited)	28 Feb 2017 (unaudited)	31 Aug 2017 (audited)
Travel	41	39	96
High Street	50	53	62
Profit from trading operations	91	92	158
Unallocated costs	(8)	(8)	(16)
Group operating profit	83	84	142
Finance costs	(1)	(1)	(2)
Income tax expense	(15)	(14)	(24)
Profit for the period	67	69	116

Included within Travel revenue and trading profit is International revenue of £59m (2017: £50m) and International trading profit of £4m (2017: £4m).

Group profit before finance charges and taxation for the period to 28 February 2018 is stated after the write-down of inventories to net realisable value, £2m (2017: £2m).

3. Retirement benefit obligations

WH Smith PLC has operated a number of defined benefit schemes (which are closed to new entrants and future service accrual) and defined contribution pension schemes. The main pension arrangements for employees are operated through a defined contribution scheme, WH Smith Retirement Savings Plan, and a defined benefit scheme, WHSmith Pension Trust. The most significant scheme is the defined benefit WHSmith Pension Trust.

The retirement benefit obligations recognised in the balance sheet for the respective schemes at the relevant reporting dates were:

£m	At 28 Feb 2018 (unaudited)	At 28 Feb 2017 (unaudited)	At 31 Aug 2017 (audited)
WHSmith Pension Trust	(4)	(5)	(4)
United News Shops Retirement Benefits Scheme	(2)	(2)	(2)
Retirement benefit obligation recognised in the balance sheet	(6)	(7)	(6)

WH Smith PLC
Notes to the Condensed Interim Financial Statements
For the 6 months to 28 February 2018

3. Retirement benefit obligations (continued)

WHSmith Pension Trust

The market value of the assets and the present value of the liabilities in the scheme at the relevant reporting dates were:

£m	At 28 Feb 2018 (unaudited)	At 28 Feb 2017 (unaudited)	At 31 Aug 2017 (audited)
Present value of the obligations	(1,025)	(1,193)	(1,071)
Fair value of plan assets	1,289	1,344	1,340
Surplus before consideration of asset ceiling	264	151	269
Amounts not recognised due to effect of asset ceiling	(264)	(151)	(269)
Additional liability recognised due to minimum funding requirements	(4)	(5)	(4)
Retirement benefit obligation recognised in the balance sheet	(4)	(5)	(4)

Total (expense) / income recognised in the Statement of Comprehensive Income ("SOCl"):

£m	6 months to 28 Feb 2018 (unaudited)	28 Feb 2017 (unaudited)	12 months to 31 Aug 2017 (audited)
Total actuarial gain before consideration of asset ceiling	40	42	150
(Loss on plan assets excluding amounts included in net interest cost	(50)	(58)	(51)
Gain / (loss) resulting from changes in amounts not recognised due to effect of asset ceiling excluding amounts recognised in net interest cost	8	14	(101)
Total actuarial loss recognised in other comprehensive income	(2)	(2)	(2)

Actuarial losses recognised in the statement of comprehensive income on the United News Shops Retirement Benefits Scheme were £nil in the period to 28 February 2018 (28 February 2017: £nil).

Movement in net retirement benefit liability during the period:

£m	6 months to 28 Feb 2018 (unaudited)	28 Feb 2017 (unaudited)	12 months to 31 Aug 2017 (audited)
At beginning of period	(4)	(5)	(5)
Current service cost	-	-	-
Net interest cost on the defined benefit liability	-	-	-
Contributions	2	2	3
Actuarial losses on defined benefit pension schemes	(2)	(2)	(2)
At end of period	(4)	(5)	(4)

In accordance with the requirements of IFRIC 14 we have recognised the net present value of the schedule of contributions as a liability of £4m (2017: £5m). The defined benefit pension schemes are closed to further accrual and the present value of the economic benefits of the IAS 19 surplus in the pension scheme of £264m (2017: £151m) available as a reduction of future contributions is £nil (2017: £nil). As a result the Group has not recognised this IAS 19 surplus on the balance sheet. There is an ongoing actuarial deficit primarily due to the different assumptions and calculation methodologies used compared to those on interpretation of IAS 19.

WH Smith PLC
Notes to the Condensed Interim Financial Statements
For the 6 months to 28 February 2018

3. Retirement benefit obligations (continued)

A full actuarial valuation of the Scheme is carried out every three years with interim reviews in the intervening years. The latest full actuarial valuation of the Pension Trust was carried out as at 31 March 2017 by independent actuaries using the projected unit credit method. Following the valuation, the deficit was £11m. The Group has agreed a revised annual funding schedule with the Trustees from September 2017 for the following six years, which includes the deficit recovery contributions and other running costs, of just under £3m.

During the period, the Group made a contribution of £2m to the WHSmith Pension Trust (2017: £1m) in accordance with the agreed pension deficit funding schedule. The Group expects the cash payments for the year ended 31 August 2018 to be approximately £3m in total in relation to the scheme (year ended 31 August 2017: £3m).

The principal long-term assumptions used in the IAS 19 valuation were:

	6 months to		12 months to
	28 Feb 2018 (unaudited)	28 Feb 2017 (unaudited)	31 Aug 2017 (audited)
%			
Rate of increase in pension payments	3.22	3.30	3.26
Rate of increase in deferred pensions	2.20	2.30	2.25
Discount rate	2.70	2.60	2.50
RPI Inflation assumption	3.30	3.40	3.35
CPI Inflation assumption	2.20	2.30	2.25

4. Finance costs

	6 months to		12 months to
	28 Feb 2018 (unaudited)	28 Feb 2017 (unaudited)	31 Aug 2017 (audited)
£m			
Interest payable on bank loans and overdrafts	1	1	2
Net interest cost on the defined benefit pension liabilities	-	-	-
	1	1	2

WH Smith PLC
Notes to the Condensed Interim Financial Statements
For the 6 months to 28 February 2018

5. Income tax expense

£m	6 months to		12 months to
	28 Feb 2018 (unaudited)	28 Feb 2017 (unaudited)	31 Aug 2017 (audited)
Tax on profit	16	17	29
Adjustment in respect of prior year UK corporation tax	(1)	(3)	(5)
Total current tax charge	15	14	24
Deferred tax – current year	-	-	(1)
Deferred tax – prior year	-	-	1
Tax on profit	15	14	24
<i>Effective tax rate</i>	18%	17%	17%

The UK corporation tax rate has been 19 per cent with effect from 1 April 2017. The UK corporation tax rate will reduce to 17 per cent from 1st April 2020. The effects of these changes are included in these financial statements.

6. Dividends

Amounts paid and recognised as distributions to shareholders in the period are as follows:

£m	6 months to		12 months to
	28 Feb 2018 (unaudited)	28 Feb 2017 (unaudited)	31 Aug 2017 (audited)
Dividends			
2016 Final dividend of 30.5p per ordinary share	-	34	34
2017 Interim dividend of 14.6p per ordinary share	-	-	16
2017 Final dividend of 33.6p per ordinary share	37	-	-
	37	34	50

The directors have declared an interim dividend in respect of the period ending 28 February 2018 of 16.0p per ordinary share, which will absorb an estimated £17m of shareholders' equity. This will be paid on 2 August 2018 to shareholders registered at the close of business on 13 July 2018.

WH Smith PLC
Notes to the Condensed Interim Financial Statements
For the 6 months to 28 February 2018

7. Earnings per share

a) Earnings

£m	6 months to		12 months to
	28 Feb 2018 (unaudited)	28 Feb 2017 (unaudited)	31 Aug 2017 (audited)
Earnings attributable to shareholders	67	69	116

b) Weighted average share capital

Millions	6 months to		12 months to
	28 Feb 2018 (unaudited)	28 Feb 2017 (unaudited)	31 Aug 2017 (audited)
Weighted average ordinary shares in issue	110	112	112
Less weighted average ordinary shares held in ESOP Trust	(1)	(1)	(1)
Weighted average ordinary shares for basic earnings per share	109	111	111
Add weighted average number of ordinary shares under option	1	1	1
Weighted average ordinary shares for diluted earnings per share	110	112	112

c) Basic and diluted earnings per share

Pence	6 months to		12 months to
	28 Feb 2018 (unaudited)	28 Feb 2017 (unaudited)	31 Aug 2017 (audited)
Basic earnings per share	61.5	62.2	104.5
Diluted earnings per share	60.9	61.6	103.6

Diluted earnings per share takes into account various share awards and share options including SAYE schemes, which are expected to vest, and for which a sum below fair value will be paid.

WH Smith PLC
Notes to the Condensed Interim Financial Statements
For the 6 months to 28 February 2018

8. Fixed Charges Cover

£m	6 months to		12 months to
	28 Feb 2018 (unaudited)	28 Feb 2017 (unaudited)	31 Aug 2017 (audited)
Net finance charges	1	1	2
Net operating lease rentals	99	96	201
Total fixed charges	100	97	203
Profit before tax	82	83	140
Profit before tax and fixed charges	182	180	343
Fixed charges cover - times	1.8x	1.9x	1.7x

An explanation of Alternative performance measures, including Fixed charges cover is provided in the Glossary on page 28.

9. Capital Expenditure

In the financial period, there were additions to property, plant and equipment, including finance leases, of £22m (28 February 2017: £19m) and additions to intangible assets of £5m (28 February 2017: £4m).

In the financial period, there were disposals of property, plant and equipment with a net book value of £nil (cost and accumulated depreciation of £3m) (28 February 2017: net book value £nil, cost and accumulated depreciation of £30m). There were no material disposals of intangible assets during the period (28 February 2017: £nil).

WH Smith PLC
Notes to the Condensed Interim Financial Statements
For the 6 months to 28 February 2018

10. Analysis of net debt / funds

Net debt / funds can be analysed as follows:

£m	At 28 Feb 2018 (unaudited)	At 28 Feb 2017 (unaudited)	At 31 Aug 2017 (audited)
Cash and cash equivalents	36	37	38
Borrowings			
- Revolving credit facility	(40)	(45)	(22)
- Obligations under finance leases	(11)	(13)	(12)
Net (debt) / funds	(15)	(21)	4

Movement in net debt / funds:

£m	At 31 Aug 2017 (audited)	Cash flow	Non cash	Currency translation	At 28 Feb 2018 (unaudited)
Cash and cash equivalents	38	(1)	-	(1)	36
Borrowings					
- Revolving credit facility	(22)	(18)	-	-	(40)
- Obligations under finance leases	(12)	2	(1)	-	(11)
Net funds / (debt)	4	(17)	(1)	(1)	(15)

An explanation of Alternative performance measures, including Net debt is provided in the Glossary on page 28.

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

The Group has in place a five-year committed multi-currency revolving credit facility of £140m with Barclays Bank PLC, HSBC, BNP Paribas and Santander UK PLC. The revolving credit facility is due to mature on 8 December 2022. The utilisation is interest-bearing at LIBOR plus 85bps. As at 28 February 2018 this Group had drawn down £40m (28 February 2017: £45m) on this facility.

11. Net cash inflow from operating activities

£m	6 months to		12 months to
	28 Feb 2018 (unaudited)	28 Feb 2017 (unaudited)	31 Aug 2017 (audited)
Group operating profit	83	84	142
Depreciation and amortisation	22	21	41
Impairment losses (relating to store closures)	-	-	1
Share-based payments	3	3	5
Increase in inventories	(5)	-	(4)
Increase in receivables	(4)	(2)	(5)
Decrease in payables	(20)	(25)	-
Pension funding	(2)	(2)	(3)
Income taxes paid	(13)	(14)	(27)
Movement on provisions	(1)	-	(1)
Net cash inflow from operating activities	63	65	149

WH Smith PLC
Notes to the Condensed Interim Financial Statements
For the 6 months to 28 February 2018

12. Called Up Share Capital

	28 Feb 2018		28 Feb 2017		31 Aug 2017	
	(unaudited)		(unaudited)		(audited)	
	Number of	Nominal	Number of	Nominal	Number of	Nominal
	shares	value	shares	value	shares	value
	(millions)	£m	(millions)	£m	(millions)	£m
Equity						
Ordinary shares of 22 6/67p	110	24	111	25	111	24
Total	110	24	111	25	111	24

During the six month period the Company repurchased 379,908 (six months to 28 February 2017: 1,561,909) of its own shares in the open market for an aggregate consideration of £8m (2017: £24m). In total, 419,908 shares were cancelled during the period. 40,000 shares were purchased prior to 1 September 2017, but the settlement of £1m took place in the current period.

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

13. Contingent liabilities and capital commitments

	6 months to		12 months to
£m	28 Feb 2018	28 Feb 2017	31 Aug 2017
	(unaudited)	(unaudited)	(audited)
Bank and other loans guaranteed	16	13	16

Other potential liabilities that could crystallise are in respect of previous assignments of leases where the liability could revert to the Group if the lessee defaulted. Pursuant to the terms of the Demerger Agreement with Connect Group PLC (formerly Smiths News PLC), any such contingent liability, which becomes an actual liability, will be apportioned between the Group and Connect Group PLC in the ratio 65:35 (provided that the actual liability of Connect Group PLC in any 12 month period does not exceed £5m). The Group's 65 per cent share of these leases has an estimated future rental commitment at 28 February 2018 of £3m (31 August 2017: £3m).

At 28 February 2018, contracts placed for future capital expenditure approved by the directors but not provided for amounted to £10m (28 February 2017: £8m).

WH Smith PLC
Notes to the Condensed Interim Financial Statements
For the 6 months to 28 February 2018

14. Financial Instruments

IFRS 13 requires disclosure of fair value measurements by level based on the following measurement hierarchy:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

All fair value measurements made by the group are in the Level 2 category. The fair value of forward foreign exchange contracts has been determined using forward currency exchange rates at the balance sheet date. These have been provided by the individual banking institutions with whom the contracts are held. There have been no transfers of assets or liabilities between any levels of the fair value hierarchy.

There were no material differences between the carrying value of non-derivative financial assets and financial liabilities and their fair values at the balance sheet date.

£m	28 Feb 2018 (unaudited)	28 Feb 2017 (unaudited)
Financial assets		
Cash flow hedges:		
Forward foreign currency contracts	-	2
	-	2

£m	28 Feb 2018 (unaudited)	28 Feb 2017 (unaudited)
Financial liabilities		
Cash flow hedges:		
Forward foreign currency contracts	(1)	-
	(1)	-

15. Related Parties

There have been no material related party transactions during the interim period under review.

16. Acquisitions

On 13 December 2017, the Group acquired entire share capital of The SQL Workshop Limited, for a cash consideration of £2m and contingent consideration of £1m, payable over two years based on certain performance and profit target criteria. The business is a leading online specialist pen retailer with over 18,000 products, trading as www.cultpens.com. This acquisition complements our existing stationery ranges in both our High Street stores and online at www.whsmith.co.uk. The fair value of assets acquired is £3m and has been allocated as follows; £2m goodwill and £1m stock and other working capital.

WH Smith PLC
Notes to the Condensed Interim Financial Statements
For the 6 months to 28 February 2018

Statement of Directors' Responsibilities

The Directors confirm to the best of their knowledge that:

(a) The condensed financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU; and

(b) This interim report includes a fair review of the information required by:

- DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- DTR 4.2.8R of the Disclosure and Transparency Rules, being related parties' transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the Group during that period; and any changes in the related parties' transactions described in the last annual report that could do so.

The Directors of WH Smith PLC are listed on the website at www.whsmithplc.co.uk/about_whsmith/directors/.

By order of the Board

Stephen Clarke
Group Chief Executive

Robert Moorhead
Chief Financial Officer and Chief Operating Officer

12 April 2018

INDEPENDENT REVIEW REPORT TO WH SMITH PLC

Report on the Condensed Interim Financial Statements

Our conclusion

We have reviewed WH Smith PLC's Condensed Interim Financial Statements (the "interim financial statements") in the Interim Results Announcement of WH Smith PLC for the 6 month period ended 28 February 2018. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements, which are prepared by WH Smith Plc, comprise:

- The Condensed Group Balance Sheet as at 28 February 2018;
- The Condensed Group Income Statement and Condensed Group Statement of Comprehensive Income for the period then ended;
- The Condensed Group Cash Flow Statement for the period then ended;
- The Condensed Group Statement of Changes in Equity for the period then ended; and
- The explanatory notes to the interim financial statements.

The interim financial statements included in the Interim Results Announcement have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The Interim Results Announcement, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim Results Announcement in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the Interim Results Announcement based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the Interim Results Announcement and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
12 April 2018
London

Notes:

- (a) The maintenance and integrity of the WH Smith PLC website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

WH Smith PLC

Glossary

Alternative performance measures

In reporting financial information, the Group presents alternative performance measures, “APMs”, which are not defined or specified under the requirements of IFRS.

The Group believes that these APMs, which are not considered to be a substitute for or superior to IFRS measures, provide stakeholders with additional useful information on the underlying trends, performance and position of the Group and are consistent with how business performance is measured internally. The alternative performance measures are not defined by IFRS and therefore may not be directly comparable with other companies’ alternative performance measures. The key APMs that the Group uses are outlined below.

APM	Closest equivalent IFRS measure	Reconciling items to IFRS measure	Definition and purpose																				
Income Statement Measures																							
Fixed charges cover	None	Refer to definition	This performance measure calculates the number of times Profit before tax is able to cover the total fixed charges included in calculating profit or loss. Fixed charges included in this measure are net finance charges and net operating lease rentals. The calculation of this measure is outlined in Note 8.																				
Gross margin	Gross profit margin	Not applicable	Where referred to throughout the Preliminary Announcement, gross margin is calculated as gross profit divided by revenue.																				
Like-for-like revenue	Movement in revenue per the income statement	- Revenue change from non like-for-like stores - Foreign exchange impact	Like-for-like revenue is the change in revenue from stores that have been open for at least a year, with a similar selling space at a constant foreign exchange rate. A reconciliation of these percentages is provided below. <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th>Travel</th> <th>High Street</th> <th>Group</th> </tr> </thead> <tbody> <tr> <td>LFL revenue change</td> <td>3%</td> <td>(4)%</td> <td>(1)%</td> </tr> <tr> <td>Net space impact</td> <td>4%</td> <td>(1)%</td> <td>1%</td> </tr> <tr> <td>Foreign exchange impact</td> <td>-%</td> <td>-%</td> <td>-%</td> </tr> <tr> <td>Total revenue change</td> <td>7%</td> <td>(5)%</td> <td>-%</td> </tr> </tbody> </table>		Travel	High Street	Group	LFL revenue change	3%	(4)%	(1)%	Net space impact	4%	(1)%	1%	Foreign exchange impact	-%	-%	-%	Total revenue change	7%	(5)%	-%
	Travel	High Street	Group																				
LFL revenue change	3%	(4)%	(1)%																				
Net space impact	4%	(1)%	1%																				
Foreign exchange impact	-%	-%	-%																				
Total revenue change	7%	(5)%	-%																				
High Street and Travel trading profit, and Group profit from trading operations	Group operating profit	Refer to definition	Group profit from trading operations and High Street and Travel trading profit are stated after directly attributable share-based payment and pension service charges and before central costs, finance costs and income tax expense. A reconciliation from the above measures to Group operating profit and Group profit before tax is provided in Note 2 to the financial statements.																				
Balance Sheet Measures																							
Net debt	None	Reconciliation of net debt	Net debt is defined as Cash and cash equivalents, less Bank overdrafts and other borrowings and both current and non-current Obligations under finance leases. A reconciliation of Net debt is provided in Note 10.																				
Other measures																							
Free cash flow	Net cash inflow from operating activities	See Group Overview	Free cash flow is defined as the net cash inflow from operating activities before pension deficit funding, less capital expenditure on property, plant and equipment and intangible assets, net interest paid/received. The components of free cash flow are shown on page 8, as part of the Group Overview.																				

WH Smith PLC

Appendix

Analysis of retailing stores and selling space

Number of High Street stores¹

	1 Sept 2017	Opened	Closed	28 Feb 2018
Total	611	2	(3)	610

¹ Excludes 132 WH Smith LOCAL franchised stores

Number of Travel units

A Travel store may consist of multiple units within one location. On an individual unit basis, Travel stores can be analysed as follows:

	1 Sept 2017	Opened	Closed	28 Feb 2018
Non franchise units	540	20	(7)	553
Joint Venture and Franchise units ²	275	12	(1)	286
Total	815	32	(8)	839

² Travel units include motorway and international franchise units, and exclude kiosks in India, and *Supanews* and *Wild Cards and Gifts* franchisees in Australia.

Retail selling square feet ('000s)

	1 Sept 2017	Opened	Closed	28 Feb 2018
High Street	2,799	9	(30)	2,778
Travel	613	23	(6)	630
Total	3,412	32	(36)	3,408

Total Retail selling square feet does not include franchise units.