

WH Smith PLC

Group Profit and Loss Account For the 6 months to 28 February 2005

£m	Note	6 months to 28 Feb 2005			6 months to 29 Feb 2004			12 months to 31 Aug 2004
		Before exceptional items & goodwill amortisation	Exceptional items & goodwill amortisation	Total	Before exceptional items & goodwill amortisation	Exceptional items & goodwill amortisation	Total	Total
Turnover								
Continuing operations		1,359	-	1,359	1,365	-	1,365	2,520
Discontinued operations		11	-	11	215	-	215	314
Group turnover	2	1,370	-	1,370	1,580	-	1,580	2,834
Operating profit / (loss)								
Continuing operations	2,3	73	(1)	72	55	(67)	(12)	(42)
Discontinued operations	2,3	-	-	-	12	(9)	3	11
Group operating profit / (loss)		73	(1)	72	67	(76)	(9)	(31)
Net loss on sale of discontinued operations	4	-	(8)	(8)	-	(61)	(61)	(101)
Profit on sale of fixed assets – continuing operations		-	-	-	-	-	-	2
Profit / (loss) on ordinary activities before net financing charges		73	(9)	64	67	(137)	(70)	(130)
Net financing charges		(3)	-	(3)	(2)	-	(2)	(5)
Profit / (loss) on ordinary activities before taxation		70	(9)	61	65	(137)	(72)	(135)
Tax on profit / (loss) on ordinary activities	6	(18)	-	(18)	(21)	9	(12)	(13)
Profit / (loss) on ordinary activities after taxation		52	(9)	43	44	(128)	(84)	(148)
Dividends	7	(150)	-	(150)	(10)	-	(10)	(24)
Retained (losses) / earnings		(98)	(9)	(107)	34	(128)	(94)	(172)
<i>Basic and diluted earnings / (loss) per share</i>	8			23.5p			(34.4)p	(60.7)p
<i>Adjusted earnings per share</i>	8			28.4p			18.0p	18.0p
<i>Equity dividends per share</i>	7			4.5p			4.0p	12.0p
<i>Fixed charges cover – times</i>	9			1.7x			1.5x	1.3x
<i>Equity dividend cover - times</i>				5.2x			-	-
<i>Equity dividend cover before exceptional items and goodwill amortisation - times</i>				6.3x			4.5x	1.5x

WH Smith PLC

Group Balance Sheet

As at 28 February 2005

£m	Note	At 28 Feb 2005	At 29 Feb 2004	At 31 Aug 2004
Fixed assets				
Intangible assets - goodwill	10	14	220	164
Tangible fixed assets		219	249	237
Investments		-	1	-
Total fixed assets		233	470	401
Current assets				
Stocks		181	223	184
Debtors due within one year		122	183	187
Debtors due after more than one year		18	15	25
Current asset investment	5,11	60	-	-
Cash at bank and in hand	11	35	54	64
		416	475	460
Creditors due within one year				
Debt	11	(26)	(24)	(17)
Other creditors		(356)	(396)	(397)
		(382)	(420)	(414)
Net current assets		34	55	46
Total assets less current liabilities		267	525	447
Creditors due after more than one year				
Debt	11	(67)	(2)	(2)
Other creditors		(2)	-	(2)
		(69)	(2)	(4)
Provisions for liabilities and charges		(31)	(26)	(38)
Net assets excluding pension liabilities		167	497	405
Net pension liabilities	5	(101)	(138)	(149)
Total net assets		66	359	256
Capital and reserves				
Called up share capital	13	4	139	139
Share premium account	14	15	93	93
Capital redemption reserve	14	218	156	156
Revaluation reserve	14	3	4	3
Other reserve	14	(34)	(27)	(27)
Profit and loss account	14	(293)	(9)	(110)
Equity shareholders' (liabilities) / funds		(87)	356	254
Non equity share capital	13	153	2	2
Shareholders' funds		66	358	256
Minority interests		-	1	-
Total capital employed		66	359	256

WH Smith PLC

Group Cash Flow Statement

For the 6 months to 28 February 2005

£m	Note	6 months to		12 months to
		28 Feb 2005	29 Feb 2004	31 Aug 2004
Net cash (outflow) / inflow from operating activities before exceptional operating items	12	(58)	29	61
Net cash outflow from exceptional operating items	12	(8)	(1)	(13)
Net cash (outflow) / inflow from operating activities	12	(66)	28	48
Returns on investment and servicing of finance				
Interest received		3	1	1
Interest paid		(3)	(1)	(1)
Net charge on pension schemes		(2)	(2)	(4)
Net cash outflow from returns on investment and servicing of finance		(2)	(2)	(4)
Taxation		(3)	(17)	(10)
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(10)	(24)	(49)
Proceeds on disposal of tangible fixed assets		-	-	5
Cash outflow from capital expenditure and financial investment		(10)	(24)	(44)
Acquisitions and disposals				
Proceeds on disposal of subsidiary undertakings		215	20	64
Proceeds on disposal of associated undertakings		-	1	1
Non-operating disposal costs		(9)	(12)	(23)
Net cash in subsidiaries disposed		-	-	(11)
Cash inflow from acquisitions and disposals		206	9	31
Equity dividends paid		(14)	(32)	(42)
Cash inflow / (outflow) before financing		111	(38)	(21)
Financing				
Purchase of own shares for employee share schemes		(12)	-	-
Money returned to ESOP Trust after share capital reorganisation		5	-	-
Non equity dividend		(143)	-	-
Repurchase of "C" shares		(62)	-	-
Increase / (decrease) in debt (net of finance costs)		72	4	(3)
Cash (outflow) / inflow from financing		(140)	4	(3)
Decrease in cash		(29)	(34)	(24)

Reconciliation of net cash flow to movements in net funds

£m	6 months to		12 months to
	28 Feb 2005	29 Feb 2004	31 Aug 2004
Net funds at the start of the period	45	68	68
Decrease in cash in the period	(29)	(34)	(24)
Increase in current asset investment (See Note 5)	60	-	-
(Increase) / decrease in debt	(74)	(4)	3
Currency translation differences	-	(2)	(2)
Net funds at the end of the period	2	28	45

WH Smith PLC

Group Statement of Total Recognised Gains and Losses

For the 6 months to 28 February 2005

£m	6 months to		12 months to
	28 Feb 2005	29 Feb 2004	31 Aug 2004
Profit / (loss) for the financial period	43	(84)	(148)
Actuarial (loss) / gain relating to the pension schemes	(19)	14	(15)
UK deferred tax attributable to pension scheme liabilities	(14)	(7)	(3)
UK current tax attributable to the additional pension schemes contributions	18	3	7
Currency translation differences	(1)	(4)	(7)
Total recognised gains / (losses) for the period	27	(78)	(166)

Group Note of Historical Cost Profits and Losses

For the 6 months to 28 February 2005

£m	6 months to		12 months to
	28 Feb 2005	29 Feb 2004	31 Aug 2004
Reported profit / (loss) on ordinary activities before taxation	61	(72)	(135)
Realisation of property revaluation gains of the previous year	-	-	1
Historical cost profit / (loss) on ordinary activities before taxation	61	(72)	(134)
Historical cost loss for the year retained after taxation, minority interests and dividends	(107)	(94)	(171)

Reconciliation of Movements in Group Shareholders' Funds

For the 6 months to 28 February 2005

£m	6 months to		12 months to
	28 Feb 2005	29 Feb 2004	31 Aug 2004
Shareholders' funds at beginning of period	256	407	407
Retained losses	(107)	(94)	(172)
Repurchase of non-equity share capital	(62)	-	-
Purchase of own shares for employee share scheme	(12)	-	-
Money returned to ESOP Trust after share capital reorganisation	5	-	-
Employee share schemes	2	-	-
Goodwill previously written off directly to reserves now transferred to profit and loss account for the period	-	39	39
Net gains and losses relating to pension schemes	(15)	10	(11)
Currency translation differences	(1)	(4)	(7)
Net reduction to shareholders' funds	(190)	(49)	(151)
Shareholders' funds at end of period	66	358	256

WH Smith PLC

Notes to the Interim Financial Statements

For the 6 months to 28 February 2005

1 Basis of preparation

The interim announcement for the 6 months to 28 February 2005 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 2004. 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 2004. These statutory accounts have been filed with the Registrar of Companies. The auditors' report on these accounts was unqualified and did not include a statement under Section 237 (2) or (3) of the Companies Act 1985.

Adoption of International Financial Accounting Standards ("IFRS")

International Financial Reporting Standards ("IFRS") will first apply to the Group for the financial year ended 31 August 2006 with Interim Results to 28 February 2006 also being presented under IFRS. The 2005 results will be restated accordingly. The Group's preparation for the transition to IFRS is continuing in line with the project timetable. The key areas of impact include the accounting for employee benefits and share based payments, certain aspects of property lease accounting, the tax impact of all of the above and the overall presentation of the financial statements. This is not intended to be a complete list of areas. Further differences may arise as a result of the continued detailed assessment and interpretations of IFRS and any pronouncements issued by the International Accounting Standards Board (IASB).

2 Segmental analysis of results

a) Segmental analysis of Group turnover

£m	6 months to 28 Feb 2005	29 Feb 2004	12 months to 31 Aug 2004
Continuing operations:			
Retailing			
High Street Retail	670	692	1,152
Travel Retail	146	142	301
Total	816	834	1,453
News Distribution			
Total turnover	599	587	1,182
Internal turnover	(56)	(56)	(115)
Total	543	531	1,067
Turnover – continuing operations	1,359	1,365	2,520
Discontinued operations:			
Retailing			
USA Travel Retail	-	49	49
Aspac Retail	-	97	132
Total	-	146	181
Publishing Business			
Total turnover	14	81	155
Internal turnover	(3)	(12)	(22)
Total	11	69	133
Turnover – discontinued operations	11	215	314
Group turnover	1,370	1,580	2,834

WH Smith PLC

Notes to the Interim Financial Statements

For the 6 months to 28 February 2005

2 Segmental analysis of results continued

b) Segmental analysis of Group operating profit / (loss)

	6 months to 28 Feb 2005			6 months to 29 Feb 2004		12 months to 31 Aug 2004	
£m	Before goodwill amortisation	Goodwill amortisation	Total	Before exceptional items & goodwill amortisation	Exceptional items & goodwill amortisation	Total	Total
Continuing operations:							
Retailing							
High Street Retail	55	(1)	54	42	(62)	(20)	(54)
Travel Retail	11	-	11	9	(5)	4	16
Total	66	(1)	65	51	(67)	(16)	(38)
News Distribution	19	-	19	17	-	17	35
Trading profit	85	(1)	84	68	(67)	1	(3)
Support functions	(8)	-	(8)	(7)	-	(7)	(26)
Pension service costs (note a)	(5)	-	(5)	(7)	-	(7)	(14)
Internal rents (note b)	1	-	1	1	-	1	1
Operating profit / (loss) – continuing operations	73	(1)	72	55	(67)	(12)	(42)
Discontinued operations:							
Retailing							
USA Travel Retail	-	-	-	(5)	-	(5)	(5)
Aspac Retail	-	-	-	7	-	7	6
Total	-	-	-	2	-	2	1
Publishing Business	-	-	-	11	(9)	2	11
Pension service costs (note a)	-	-	-	(1)	-	(1)	(1)
Operating profit / (loss) – discontinued operations	-	-	-	12	(9)	3	11
Group operating profit / (loss)	73	(1)	72	67	(76)	(9)	(31)

a) The annual pension service costs are attributable to the businesses based on pensionable salaries as follows: High Street Retail £2.8m (2004: £4.0m), Travel Retail £0.4m (2004: £0.6m), Publishing £nil (2004: £0.6m), News Distribution £1.2m (2004: £1.7m) and Support functions £0.4m (2004: £0.6m).

b) The results for Retailing are reported after an internal arm's length market rent on freehold and long leasehold properties owned and occupied by the Group. The internal income generated of £1m (2004: £1m) is shown as a separate credit to the profit and loss account and a debit against the respective businesses, giving a nil net effect to the overall Group operating profit before exceptional operating items and goodwill amortisation.

WH Smith PLC

Notes to the Interim Financial Statements

For the 6 months to 28 February 2005

2 Segmental analysis of results continued

c) Geographical split

£m	Turnover			Profit / (loss) before taxation		
	6 months to		12 months to	6 months to		12 months to
	28 Feb 2005	29 Feb 2004	31 Aug 2004	28 Feb 2005	29 Feb 2004	31 Aug 2004
Continuing operations before exceptional items and goodwill amortisation - UK / Europe	1,359	1,365	2,520	70	53	46
Exceptional items and goodwill amortisation				(1)	(67)	(91)
Continuing operations – UK / Europe	1,359	1,365	2,520	69	(14)	(45)
Discontinued operations before exceptional items and goodwill amortisation:						
UK / Europe	9	57	110	-	9	16
USA	-	49	49	-	(5)	(5)
Asia / Pacific	2	109	155	-	8	10
	11	215	314	-	12	21
Exceptional items and goodwill amortisation				(8)	(70)	(111)
Discontinued operations	11	215	314	(8)	(58)	(90)
Total Group	1,370	1,580	2,834	61	(72)	(135)

Turnover is disclosed by origin. There is no material difference in turnover by destination.

d) Analysis of retailing stores and selling space

Number of stores

	1 Sept 2004	Opened	Closed	28 Feb 2005
High Street Retail	544	-	(2)	542
Travel Retail	129	1	(5)	125
Total Retailing Businesses	673	1	(7)	667

Retail selling square feet (000's)

	1 Sept 2004	Opened	Closed	28 Feb 2005
High Street Retail	3,056	-	(7)	3,049
Travel Retail	214	2	(6)	210
Total Retailing Businesses	3,270	2	(13)	3,259

WH Smith PLC

Notes to the Interim Financial Statements

For the 6 months to 28 February 2005

3 Exceptional operating items

No exceptional operating charges have been made in the six months to 28 February 2005.

In the prior year the following exceptional operating charges were made:

a) An exceptional operating charge of £66m was made relating to UK Retailing. Of this amount, £45m related to the write-down in the carrying value of stock to reflect redundant and slow moving items, and £17m related to fixed asset impairment charges in respect of costs of research work on our concept store, systems development for Travel Retail and to an impairment charge covering goodwill and assets in relation to WHSmith Online. A further £4m was written off relating to other items. These are included within continuing operations.

b) A £9m exceptional provision was made in the Publishing Business relating to unearned author advances, which is included within discontinued operations.

4 Net loss on sale of discontinued operations

a) Provisions for discontinued businesses

An amount of £8m has been charged to the profit and loss account for the six months to 28 February 2005 relating to the disposal of discontinued businesses. Of this amount, £7m relates to an impairment review of the loan notes received as deferred consideration in respect of the disposal of the Group's USA businesses. The balance relates to closure and exit provisions.

b) Publishing Business disposal

On 25 September 2004, the Group completed the disposal of its Publishing Business, Hodder Headline Limited. A financial summary of the disposal is shown below:

£m	Total
Fixed assets	156
Stock	17
Debtors	80
Creditors	(30)
Net pension liabilities	(14)
Net assets disposed	209
Cash consideration	210
Cash received in respect of working capital adjustments	5
Net assets disposed	(209)
Transaction costs and other charges	(6)
Net result on sale of the Publishing Business recognised in the period ended 28 February 2005	-

The Group incurred a £5m cash outflow in respect of transaction costs and other charges relating to the Publishing Business disposal.

In the period to 29 February 2004 the following exceptional non-operating charges were made:

a) The Group disposed of its USA Travel Retail business for a total consideration of £39m. A loss of £61m was incurred on the sale of this business.

b) The Group 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, generating a profit of £0.3m on disposal.

WH Smith PLC

Notes to the Interim Financial Statements

For the 6 months to 28 February 2005

5 Pensions arrangements

The Group's pension arrangements for employees are operated through a defined benefit scheme (the WHSmith Pension Trust) and a defined contribution scheme, WHSmith Pension Builder. The most significant scheme remaining in the Group is the defined benefit WHSmith Pension Trust. The assets of the pension plans are held in separate funds administered by Trustees, which are independent of the Group's finances. The Trustees have extensive powers over the plan's arrangements, including the ability to determine the levels of contribution.

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

£m	At 28 Feb 2005	At 29 Feb 2004	At 31 Aug 2004
Total market value of assets	759	672	678
Present value of scheme liabilities	(896)	(862)	(883)
Deficit in the scheme	(137)	(190)	(205)
Related deferred tax asset	41	57	61
Net defined benefit scheme liabilities	(96)	(133)	(144)
Net retirement medical benefit liabilities	(5)	(5)	(5)
Net pension liabilities	(101)	(138)	(149)

Under FRS 17 ("Retirement Benefits"), there is only a requirement to revalue scheme assets and liabilities at the financial year end. However, the scheme assets have been valued at market value as at 28 February 2005. The last formal valuation of scheme liabilities was at 31 August 2004. The financial assumptions used in the calculation of the liability as at 31 August 2004 have been applied in the calculation of the actuarial value of the liability in these interim accounts, with the exception of the discount rate. The discount rate used has been reduced from 5.6% in August 2004 to 5.25% in February 2005, and this decrease resulted from a fall in bond yields over this period.

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.

Movement in scheme deficit during the period

£m	6 months to 28 Feb 2005	6 months to 29 Feb 2004	12 months to 31 Aug 2004
At beginning of period	(205)	(215)	(215)
Current service cost	(5)	(8)	(15)
Contributions	71	22	44
Interest cost	(2)	(2)	(4)
Settlement / loss on curtailment	3	(1)	-
Disposal of subsidiary pension fund	20	-	-
Actuarial (loss) / gain	(19)	14	(15)
Deficit in scheme at end of period	(137)	(190)	(205)

On 25 September 2004, the Group completed the disposal of its Publishing Business. The gross and net deficit of the pension fund were £20m and £14m respectively.

In July 2004, the Group announced that following the disposal of the Publishing Business, it would make additional contributions totalling £120m to the WHSmith Pension Trust. These have been made through monthly instalments. As at 28 February 2005, the Group had made additional contributions totalling £60m. The remaining £60m has been paid into an Escrow bank account, which will be released to the WHSmith Pension Trust by 31 August 2005. The Escrow bank account balance has been shown as a current asset investment in the Group's balance sheet.

WH Smith PLC

Notes to the Interim Financial Statements

For the 6 months to 28 February 2005

6 Taxation

£m	6 months to		12 months to
	28 Feb 2005	29 Feb 2004	31 Aug 2004
Tax on profit before exceptional items and goodwill amortisation	19	21	20
- Standard rate of UK corporation tax 30% (2004: 30%)			
Adjustment in respect of prior year UK corporation tax	-	-	(3)
Foreign tax	-	2	3
Total current tax charge before exceptional items and goodwill amortisation	19	23	20
Deferred tax – current year	(1)	-	-
Deferred tax – prior year	-	(2)	3
Tax on profit on ordinary activities before exceptional items and goodwill amortisation	18	21	23
Tax on exceptional items and goodwill amortisation	-	(9)	(10)
Tax on profit on ordinary activities after exceptional items and goodwill amortisation	18	12	13
<i>Effective tax rate before exceptional items and goodwill amortisation – continuing operations</i>	25%	30%	30%

7 Dividends

£m	6 months to		12 months to
	28 Feb 2005	29 Feb 2004	31 Aug 2004
Equity dividends			
Interim	4.5p	4.0p	4.0p
Final			8.0p
			<u>12.0p</u>
Non equity dividends			
“C” share dividend paid on capital reorganisation (see Note 13)	85.0p	-	-
Total	89.5p	4.0p	12.0p
£m			
Equity dividends			
Interim	7	10	10
Final			14
			<u>24</u>
Non equity dividends			
“C” share dividend paid on capital reorganisation (see Note 13)	143	-	-
	150	10	24

The interim dividend will be paid on 23 June 2005 to shareholders registered at the close of business on 27 May 2005. As at 28 February 2005 the Company had 180,522,752 ordinary shares in issue.

On 27 October 2004, the Group paid a “C” share dividend of £142,533,945 in respect of 167,686,994 “C” shares in issue. All such “C” shares were subsequently converted to Deferred shares. The Group paid a dividend in respect of all those “C” shares not repurchased or converted to deferred shares at a rate of 75% of LIBOR, totalling £104,441, on 28 February 2005. In addition, the Group paid dividends on the “B” shares of £44,914 on 28 February 2005.

WH Smith PLC

Notes to the Interim Financial Statements

For the 6 months to 28 February 2005

8 Earnings / (loss) per share

a) Basic and diluted earnings / (loss) per share

£m	6 months to		12 months to
	28 Feb 2005	29 Feb 2004	31 Aug 2004
Continuing operations:			
Profit / (loss) attributable to shareholders	51	(22)	(50)
Exceptional items net of related tax impact	-	58	81
Goodwill amortisation	1	1	1
Adjusted earnings attributable to shareholders – continuing operations	52	37	32
Discontinued operations:			
Loss attributable to shareholders	(8)	(62)	(98)
Exceptional items net of related tax impact	8	69	109
Goodwill amortisation	-	-	1
Adjusted earnings attributable to shareholders – discontinued operations	-	7	12
Total adjusted earnings attributable to shareholders	52	44	44

Adjusted earnings per share is based on profits / (losses) attributable to shareholders before goodwill amortisation and exceptional items and is presented to show a clearer representation of the results of the business going forward.

	6 months to		12 months to
	28 Feb 2005	29 Feb 2004	31 Aug 2004
Continuing operations:			
Basic and diluted earnings / (loss) per share	27.9p	(9.0)p	(20.5)p
Exceptional items net of related taxation	-	23.8p	33.2p
Goodwill amortisation	0.5p	0.4p	0.4p
Adjusted earnings per share – continuing operations	28.4p	15.2p	13.1p
Discontinued operations:			
Basic and diluted loss per share	(4.4)p	(25.4)p	(40.2)p
Exceptional items net of related taxation	4.4p	28.2p	44.7p
Goodwill amortisation	-	-	0.4p
Adjusted earnings per share – discontinued operations	-	2.8p	4.9p
Total basic and diluted earnings / (loss) per share	23.5p	(34.4)p	(60.7)p
Total adjusted earnings per share	28.4p	18.0p	18.0p

In accordance with FRS 14 “Earnings per share”, as the average share option price was higher than the fair market value of all shares in the current period, earnings per share was not diluted by shares under option. In the prior year, as the Group recorded a loss from continuing operations, the diluted loss per share was the same as the basic, as any potential dilutive shares reduce the loss per share for continuing operations.

WH Smith PLC

Notes to the Interim Financial Statements

For the 6 months to 28 February 2005

8 Earnings / (loss) per share continued

b) Weighted average share capital

£m	6 months to		12 months to
	28 Feb 2005	29 Feb 2004	31 Aug 2004
Weighted average shares in issue for earnings per share	183	244	244
Add dilutive weighted average number of ordinary shares under option	-	-	-
Weighted average ordinary shares for fully diluted earnings per share	183	244	244

The weighted number of ordinary shares in issue is stated after excluding 8,961,515 (2004: 6,682,660) shares held solely for the purpose of satisfying obligations under employee share schemes.

9 Fixed charges cover

£m	6 months to		12 months to
	28 Feb 2005	29 Feb 2004	31 Aug 2004
Interest expense	3	2	5
Operating lease rentals	76	91	184
Property taxes	18	18	37
Other property costs	6	16	15
Total fixed charges	103	127	241
Profit before tax, exceptional items and goodwill amortisation	70	65	67
Profit before tax, exceptional items, goodwill amortisation and fixed charges	173	192	308
Fixed charges cover	1.7x	1.5x	1.3x

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

WH Smith PLC

Notes to the Interim Financial Statements

For the 6 months to 28 February 2005

10 Goodwill

£m	
Cost:	
At 1 September 2004	226
Disposals	(195)
At 28 February 2005	31
Accumulated Amortisation:	
At 1 September 2004	62
Amortised in the period	1
Disposals	(46)
At 28 February 2005	17
Net Book Value	
At 28 February 2005	14
At 31 August 2004	164

The net book value of goodwill disposed of £149m relates to the disposal of the Publishing Business, which was completed on 25 September 2004.

11 Financial assets and liabilities

£m	At 28 Feb 2005	At 29 Feb 2004	At 31 Aug 2004
Current asset investment (See Note 5)	60	-	-
Cash at bank and in hand (note a)	35	54	64
Repayable within one year or on demand	(26)	(24)	(17)
Repayable after more than one year but within two years	(30)	-	-
Repayable after more than two years but within five years	(35)	-	-
Repayable in more than five years	(2)	(2)	(2)
Net funds	2	28	45
£m	At 28 Feb 2005	Cash flow	At 31 Aug 2004
Cash at bank and in hand	35	(29)	64
Debt			
- Sterling floating rate (note b & c)	(56)	(39)	(17)
- Sterling fixed rate (note b & c)	(37)	(35)	(2)
Current asset investment (see Note 5)	60	60	-
Net funds	2	(43)	45

WH Smith PLC

Notes to the Interim Financial Statements

For the 6 months to 28 February 2005

11 Financial assets and liabilities continued

- a) Cash at bank is primarily held on short-term deposit, bearing interest at a weighted average of 4.71% for the period.
- b) On 27 July 2004, the Group entered into new committed three-year syndicated borrowing facilities comprising a £120m unsecured term loan facility (of which £30m was cancelled on 20 September 2004) and a £150m working capital facility. Both facilities were contingent on the successful disposal of the Publishing Business and as such became available to the Group on 27 September 2004.
- c) At 28 February 2005, floating rate debt constitutes (1) £30m of unsecured term loan bearing an interest rate of three month LIBOR plus 175 basis points, (2) £16m of unsecured loan notes (which are repayable at par on-demand up until expiry on 28 February 2008) which bear an interest rate of 100 basis points below six month LIBOR 2004 and (3) £10m of unsecured revolver drawdown bearing an interest rate of daily LIBOR plus 175 basis points. Fixed rate debt constitutes (1) £35m of unsecured term loan bearing an interest rate of 6.67% and (2) £2m of undated 5.125% unsecured (redeemable at par) loan stock.

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

£m	6 months to		12 months to
	28 Feb 2005	29 Feb 2004	31 Aug 2004
Operating profit / (loss)	72	(9)	(31)
Adjustment for pension funding (note a)	(124)	(12)	(25)
Operating exceptional items	-	75	101
Depreciation of fixed assets	21	24	46
Amortisation of goodwill	1	1	2
Increase in stock	(13)	(29)	(17)
(Increase) / decrease in debtors	(20)	7	(1)
Increase / (decrease) in creditors	7	(28)	(9)
Cash spend against provisions	(2)	-	(5)
Net cash (outflow) / inflow from operating activities before exceptional operating items	(58)	29	61
Cash spend against exceptional provisions	-	(1)	-
Internal restructuring of UK Retailing	-	-	(11)
Corporate advisory costs	(8)	-	(2)
Net cash outflow from exceptional operating items	(8)	(1)	(13)
Net cash (outflow) / inflow from operating activities after exceptional operating items	(66)	28	48

- a) For the period ended 28 February 2005, £131m (2004: £22m) cash contributions have been made to the pension schemes and an associated Escrow bank account. The associated profit and loss charge comprises £5m (2004: £8m) for operating costs and a £2m charge (2004: £2m) for financing. The Group has made total additional contributions of £124m (2004: £12m) over and above the required profit and loss charge. £120m of this amount relates to the additional contribution that the Group announced it would make following the disposal of the Publishing Business, of which £60m is held in an Escrow bank account as at 28 February 2005 that will be paid to the defined benefit pension fund by monthly instalments over the next six months (see Note 5).

WH Smith PLC

Notes to the Interim Financial Statements

For the 6 months to 28 February 2005

13 Share Capital

a) Authorised

£m	At 28 Feb 2005	At 29 Feb 2004	At 31 Aug 2004
Equity:			
Ordinary shares of 2 13/ 81p each	50	-	-
Ordinary shares of 55.55p each	-	185	185
	50	185	185
Non equity:			
“B” shares of 53.75p each	153	153	153
“C” shares of 85p each	70	-	-
Deferred shares of 85p each	143	-	-
	366	153	153
Total	416	338	338

b) Allotted and fully paid

£m	At 28 Feb 2005	At 29 Feb 2004	At 31 Aug 2004
Equity:			
180m (2004: nil) Ordinary shares of 2 13/ 81p each	4	-	-
Nil (2004: 251m) Ordinary shares of 55.55p each	-	139	139
	4	139	139
Non equity:			
4m (2004: 4m) “B” shares of 53.75p each	2	2	2
10m (2004: nil) “C” shares of 85p each	8	-	-
168m (2004: nil) Deferred shares of 85p each	143	-	-
	153	2	2
Total	157	141	141

c) Movement in share capital

£m	Equity		Non equity			Total
	Ordinary shares of 2 13/81p each	Ordinary shares of 55.55p each	‘B’ shares of 53.75p each	‘C’ Shares of 85p each	Deferred shares of 85p each	
At 1 September 2004	-	139	2	-	-	141
Capital reorganisation	4	(139)	-	213	-	78
Converted	-	-	-	(143)	143	-
Cancelled	-	-	-	(62)	-	(62)
At 28 February 2005	4	-	2	8	143	157

At 28 February 2005, the number of options held under employee share schemes was 16.0m (2004: 17.6m). The proceeds due to the Company upon exercise of these options would be approximately £54m (2004: £64m).

The “B” shares are redeemable at their nominal value at the shareholders’ option during any specific period declared by the Company or at the Company’s option, or at maturity on 31 August 2008. The “B” shares carry a net non-cumulative dividend set at a rate that is the lower of 75% of LIBOR and 20% per annum.

WH Smith PLC

Notes to the Interim Financial Statements

For the 6 months to 28 February 2005

13 Share capital continued

The Group has 169,072 authorised, allotted and fully paid 5.75 per cent cumulative preference shares in issue, which receive dividends half yearly.

On 27 September 2004 the Company undertook a capital reorganisation whereby existing ordinary shareholders received 18 new ordinary shares and 25 new non-cumulative preference shares of nominal value 85p ("C" shares) for every 25 existing ordinary shares. The new ordinary shares have a nominal value of 2 13/81p each. This capital reorganisation was effected by a bonus issue of approximately £77.7m, using the share premium account to fully pay up undesignated shares of 31p each, which were then allocated to shareholders on the basis of one undesignated share for every existing share held. The existing ordinary shares and undesignated shares were then consolidated and split resulting in the issue of new ordinary share capital of a nominal value of £4m and "C" shares of a nominal value of £213m.

In accordance with the terms of the capital reorganisation, shareholders could elect to sell "C" shares to the Company at 85p per share following which all such "C" shares would be cancelled by the Company or to receive the Initial "C" share dividend of 85p per "C" share following which all such "C" shares would be converted into Deferred shares. On 27 October 2004, as a result of these elections, the Group repurchased 73,182,358 "C" shares for their nominal value of 85p each, a total repurchase amount of £62m and paid an initial "C" share dividend of £143m in respect of 167,686,994 "C" shares. The remaining 9,693,148 "C" shares which have not been repurchased or converted are irredeemable, except at the Company's option, and carry a net non-cumulative dividend set at a rate which is the lower of 75% of LIBOR and 20% per annum.

14 Reserves

£m	Share premium account	Capital redemption reserve	Revaluation reserve	Other reserve	Profit and loss Account
At 1 September 2004	93	156	3	(27)	(110)
Loss retained for the period	-	-	-	-	(107)
Bonus issue (see Note 13)	(78)	-	-	-	-
Employee share schemes	-	-	-	-	2
Repurchase of shares (see Note 13)	-	62	-	-	(62)
Purchase of own shares for employee share schemes	-	-	-	(12)	-
Money returned to ESOP Trust after share capital reorganisation	-	-	-	5	-
Currency translation differences	-	-	-	-	(1)
Reserves excluding current period pension deficit at 28 February 2005	15	218	3	(34)	(278)
Current period net pension deficit adjustment	-	-	-	-	(15)
Reserves at 28 February 2005	15	218	3	(34)	(293)

The profit and loss account reserve at 28 February 2005 is stated after previously writing off acquired goodwill of £19m (2004: £19m).

15 Approval of Interim Statement

The Interim Statement was approved by the Board of Directors on 21 April 2005.

INDEPENDENT REVIEW REPORT TO WH SMITH PLC

Introduction

We have been instructed by the company to review the financial information for the six months ended 28 February 2005 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, the Group note of historical cost profits and losses, the Reconciliation of movements in Shareholders' funds and related notes 1 – 15. We have read the other information contained in the Interim Statement and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This Report is made solely to the company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

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

Review work performed

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

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 28 February 2005.

Deloitte & Touche LLP

Chartered Accountants
London
21 April 2005