

WH Smith PLC

Group Income Statement

For the 6 months ended 28 February 2006

£m	Note	6 months to 28 Feb 2006			6 months to 28 Feb 2005			12 months to
		Before exceptional items	Exceptional items	Total	Before exceptional items	Exceptional items	Total	31 Aug 2005
Continuing operations								
Revenue	2	1,302	-	1,302	1,359	-	1,359	2,497
Operating profit	2,3	77	5	82	71	-	71	80
Investment income		1	-	1	3	-	3	3
Finance costs		(7)	-	(7)	(6)	-	(6)	(12)
Profit before tax		71	5	76	68	-	68	71
Income tax expense	6	(17)	(2)	(19)	(17)	-	(17)	(16)
Profit after tax from continuing operations		54	3	57	51	-	51	55
Loss for the period from discontinued operations	4	-	-	-	-	(8)	(8)	(8)
Profit for the period		54	3	57	51	(8)	43	47
Continuing earnings per share								
Basic earnings per share	8			33.1p			27.9p	31.1p
Diluted earnings per share	8			32.7p			27.9p	30.7p
Earnings per share								
Basic earnings per share	8			33.1p			23.5p	26.6p
Diluted earnings per share	8			32.7p			23.5p	26.3p
Non-GAAP measures								
Headline profit before tax ¹				£73m			£70m	£73m
Headline earnings ² - continuing	8			£56m			£52m	£56m
Headline earnings per share³								
Basic earnings per share - continuing	8			32.6p			28.4p	31.6p
Diluted earnings per share - continuing	8			32.1p			28.4p	31.3p
Dividend per share ⁴				5.1p			4.5p	13.7p
Fixed charges cover	9			1.7x			1.7x	1.4x

¹ Headline profit before tax excludes exceptional items and IAS 19 pension interest

² Headline earnings is calculated using profit after tax, but before exceptional items and IAS 19 pension interest net of taxation

³ Headline earnings per share is calculated using profit after tax, but before exceptional items and IAS 19 pension interest net of taxation

⁴ Dividend per share comprises the dividends proposed and dividends paid relating to the profits for the same period

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Group Balance Sheet

As at 28 February 2006

£m	Note	At 28 Feb 2006	At 28 Feb 2005	At 31 Aug 2005
Non-current assets				
Goodwill		15	15	15
Other intangible assets		17	20	18
Property, plant and equipment		204	207	219
Deferred tax assets		33	48	57
		269	290	309
Current assets				
Inventories		171	181	162
Trade and other receivables		115	139	111
Current asset investment		-	60	-
Derivative financial assets		1	-	-
Cash and cash equivalents	10	63	35	46
		350	415	319
Total assets		619	705	628
Current liabilities				
Trade and other payables		(307)	(322)	(303)
Current tax liabilities		(21)	(28)	(27)
Obligations under finance leases	10	(5)	(4)	(6)
Bank overdrafts and other borrowings	10	(50)	(26)	(45)
Short-term provisions		(7)	(7)	(5)
		(390)	(387)	(386)
Net current (liabilities) / assets		(40)	28	(67)
Non-current liabilities				
Bank loans and other borrowings	10	(9)	(67)	(37)
Retirement benefit obligation	5	(87)	(145)	(103)
Deferred tax liabilities		(15)	(14)	(16)
Long-term provisions		(8)	(11)	(12)
Obligations under finance leases	10	(11)	(6)	(14)
Other non-current liabilities		(8)	(10)	(8)
		(138)	(253)	(190)
Total liabilities		(528)	(640)	(576)
Total net assets		91	65	52
Shareholders' equity				
Called up share capital		4	4	4
Deferred shares and "C" shares reserve		146	153	153
Share premium account		17	15	17
Other reserves		187	187	187
Retained earnings		(263)	(294)	(309)
Total equity		91	65	52

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Group Cash Flow Statement

For the 6 months to 28 February 2006

£m	Note	6 months to 28 Feb 2006	28 Feb 2005	12 months to 31 Aug 2005
Net cash from operating activities	11	65	(68)	(22)
Investing activities				
Interest received		1	3	4
Proceeds on disposal of property, plant and equipment		8	-	2
Proceeds on disposal of subsidiary		-	215	222
Proceeds on settlement of loan notes		11	-	-
Non-operating disposal costs		(2)	(9)	(10)
Purchase of property, plant and equipment		(12)	(10)	(32)
Net cash from investing activities		6	199	186
Financing activities				
Interest paid		(4)	(3)	(6)
Dividend paid		(16)	(14)	(21)
“C” share dividend paid on capital reorganisation		-	(143)	(143)
Purchase of shares for employee share schemes		-	(12)	(12)
Money returned to ESOP Trust after share capital reorganisation		-	5	5
Issue of shares to satisfy employee share schemes		-	-	2
Repurchase of “C” shares		-	(62)	(62)
Repayments of borrowings		(30)	-	-
Repayments of obligations under finance leases		(4)	(3)	(6)
New bank loans raised (net of financing costs)		-	72	61
Net cash used in financing activities		(54)	(160)	(182)
Net increase / (decrease) in cash and cash equivalents – continuing operations		8	(20)	(8)
Net increase / (decrease) in cash and cash equivalents – discontinued operations		9	(9)	(10)
Net increase / (decrease) in cash and cash equivalents in period		17	(29)	(18)
Opening net cash and cash equivalents		46	64	64
Closing net cash and cash equivalents		63	35	46
Reconciliation of net cash flow to movement in net (debt) / funds				
Net (debt) / funds at beginning of the period – as reported		(56)	35	35
IAS 39 – Deferred shares and ‘C’ shares classified as financial liabilities		(7)	-	-
Increase / (decrease) in cash and cash equivalents		17	(29)	(18)
Decrease / (increase) in debt		30	(74)	(63)
Current asset investment		-	60	-
Net movement in finance leases		4	-	(10)
Net (debt) / funds at end of the period	10	(12)	(8)	(56)

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Group Statement of Recognised Income and Expenses

For the 6 months to 28 February 2006

£m	6 months to		12 months to
	28 Feb 2006	28 Feb 2005	31 Aug 2005
Exchange differences arising on translation of foreign operations	(1)	(1)	-
Actuarial gains / (losses) on defined pension schemes	2	(19)	(42)
UK deferred tax attributable to pension scheme liabilities	(2)	(14)	(27)
UK current tax attributable to the additional pension scheme contributions	2	18	39
Net income recognised directly in equity	1	(16)	(30)
Profit for the period	57	43	47
Total recognised income and expense for the period	58	27	17

Total recognised income and expense for the period is fully attributable to equity holders of the parent company.

Reconciliation of movements in equity

For the 6 months to 28 February 2006

£m	Share	Deferred	Share	Hedging and	Capital	Revaluation	Other	Retained	Total
	Capital	Shares and "C" shares	Premium	Translation Reserves	Reserve	Reserve	Reserve	Earnings	
Balance at 1 September 2005	4	153	17	-	218	3	(34)	(309)	52
Cumulative adjustment for implementation of IAS 39 (net of deferred tax)	-	(7)	-	-	-	-	-	-	(7)
Balance restated at 1 September 2005 for adoption of IAS 39	4	146	17	-	218	3	(34)	(309)	45
Total recognised income and expense for the period	-	-	-	-	-	-	-	58	58
Recognition of share-based payments	-	-	-	-	-	-	-	4	4
Dividends paid	-	-	-	-	-	-	-	(16)	(16)
Balance at 28 February 2006	4	146	17	-	218	3	(34)	(263)	91

On 1 March 2006, the deferred shares were transferred to the Group for a total consideration of one pence. The effect on the balance sheet will be to reduce the deferred shares and "C" shares reserve by £143m and increase the capital reserve by £143m.

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Notes to the Interim Financial Statements

For the 6 months to 28 February 2006

1 Basis of preparation

The Group has previously prepared its financial statements under UK Generally Accepted Accounting Principles ("UK GAAP"). From 1 September 2005, the Group is required to prepare its annual consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and implemented in the UK. This interim report has been prepared using IFRS accounting policies consistent with those that the Group expects to use in the preparation of its first annual report and financial statements using IFRS for the year ending 31 August 2006. These accounting policies were included in the Group's "Restatement of financial information under International Financial Reporting Standards" document which was published in full on 29 November 2005 and is available on the Group's website at www.whsmithplc.com/grp/WHSPLC-IR-Reports.htm.

As the 2006 annual financial statements will include comparatives for 2005, the Group's transition date to IFRS is 1 September 2004. The 2005 comparatives have been restated accordingly with the exception of the adoption of IAS 32 "Financial Instruments: Presentation and Disclosure" and IAS 39 "Financial Instruments: Recognition and Measurement". As permitted by IFRS 1 "First time adoption of IFRS" the Group elected to defer implementation of IAS 32 and IAS 39 until the year ending 31 August 2006. The adjustments required for the adoption of IAS 32 and IAS 39 as at 1 September 2005, together with the IAS adjustments required as at 31 August 2005 and the comparative six month period to 28 February 2005 for this set of interim statements, are set out in notes 12 to 15 of this report.

The interim financial statements are unaudited but have been reviewed by the auditors. The scope of this review was substantially less than an audit in accordance with Auditing Standards. The full year accounts for the year ended 31 August 2005 were prepared under UK GAAP. 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.

2 Segmental analysis of results

For management purposes, the Group is currently organised into three operating divisions – High Street Retail, Travel Retail and News Distribution. These divisions are the basis on which the Group reports its primary business segment information.

1) Segmental analysis by business segments

a) Group revenue

£m	6 months to 28 Feb 2006	28 Feb 2005	12 months to 31 Aug 2005
Continuing operations:			
Retailing			
High Street Retail	621	670	1,112
Travel Retail	150	146	311
Total	771	816	1,423
News Distribution			
Total revenue	587	599	1,187
Internal revenue	(56)	(56)	(113)
Total	531	543	1,074
Group revenue	1,302	1,359	2,497

Travel retail includes revenue of £3.0m generated from Continental Europe (February 2005: £3.0m and August 2005: £5.6m).

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Notes to the Interim Financial Statements

For the 6 months to 28 February 2006

2 Segmental analysis of results continued

b) Group operating profit

£m	6 months to 28 Feb 2006				6 months to 28 Feb 2005				12 months to 31 Aug 2005
	Divisional Profit	Pensions	Share based payments	Total	Divisional Profit	Pensions	Share based payments	Total	Total
Continuing operations:									
Retailing									
High Street Retail	57	(3)	(2)	52	54	(3)	(1)	50	36
Travel Retail	13	-	-	13	11	-	-	11	25
Total	70	(3)	(2)	65	65	(3)	(1)	61	61
News Distribution	20	(1)	(1)	18	19	(1)	(1)	17	34
Trading profit	90	(4)	(3)	83	84	(4)	(2)	78	95
Unallocated costs	(4)	(1)	(1)	(6)	(6)	(1)	-	(7)	(15)
Group operating profit before exceptional items	86	(5)	(4)	77	78	(5)	(2)	71	80

Divisional profit comprises operating profit before exceptional items, pension service cost and charges in respect of share based payments.

Travel retail includes profit of £0.4m generated from Continental Europe (February 2005: £0.3m and August 2005: £0.6m).

c) Geographical split

The total Group revenue and operating profit stated in notes 1 (a) and 1 (b) above originate from the UK / Europe region.

d) Analysis of retailing stores and selling space

Number of stores

	1 Sept 2005	Opened	Closed	28 Feb 2006
High Street Retail	542	4	-	546
Travel Retail	127	1	-	128
Total Retailing Businesses	669	5	-	674

Retail selling square feet (000's)

	1 Sept 2005	Opened	Space reduction	28 Feb 2006
High Street Retail	3,035	14	(11)	3,038
Travel Retail	216	1	(1)	216
Total Retailing Businesses	3,251	15	(12)	3,254

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Notes to the Interim Financial Statements

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3 Exceptional items

In September 2005, members of the post retirement medical benefits scheme were offered the option to be bought out of the scheme, which was accepted by the majority of members. A gain of £5m (before tax) arose from the settlement of this scheme, which has been recognised in the Income statement for the period. Further details are included in Note 5.

4 Discontinued operations

1) Results from discontinued operations

The results from discontinued operations were as follows:

£m	6 months to		12 months to
	28 Feb 2006	28 Feb 2005	31 Aug 2005
Revenue			
Publishing Business			
Total revenue	-	14	14
Internal revenue	-	(3)	(3)
Total revenue	-	11	11
USA Travel Retail			
	-	-	-
Total revenue – discontinued operations	-	11	11
Loss after tax			
Publishing Business	-	-	-
USA Travel Retail	-	(8)	(8)
Loss after tax – discontinued operations	-	(8)	(8)

The cash flows attributable to discontinued operations comprise:

£m	6 months to		12 months to
	28 Feb 2006	28 Feb 2005	31 Aug 2005
From operating activities	-	-	-
From investing activities	9	(9)	(10)
From financing activities	-	-	-
Net increase / (decrease) in cash and cash equivalents	9	(9)	(10)

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4 Discontinued operations continued

2) Net loss on sale of discontinued operations

There are no results recorded in the period to 28 February 2006 for the sale of discontinued operations.

In the prior year, the following results were recorded:

a) Provisions for discontinued businesses

An amount of £8m was charged to the Income statement 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 certain 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. The net profit on disposal was £nil.

5 Retirement benefit obligation

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 is the defined benefit WHSmith Pension Trust. The assets of the pension plans are 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.

In September 2005, the Trustees of the WHSmith Pension Trust adopted a new investment policy in order to limit the volatility in the underlying investment performance and reduce the risk of a significant increase in the deficit in the fund. The assets in the investment fund were restructured in order to adopt this policy. This involved the expected liabilities of the scheme being matched by assets that will alter in value as interest and inflation rates change, matching the movements at the same rate as the pension liability changes ("a Liability Driven Investment 'LDI' policy").

The key features of this fund restructuring are as follows:

- 94% of the fund's assets are invested in an LDI structure with a leading international institutional fund manager; and
- 6% of the fund's assets are invested in a portfolio of long-dated equity Call options. These represent a notional exposure to underlying equities of some £350m.

The impact of this change in investment policy is to limit the volatility in the fund and the resultant risk of a significant increase in the overall deficit whilst enabling the fund to continue to benefit from any potential higher returns in the equity markets.

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

£m	At 28 Feb 2006	At 28 Feb 2005	At 31 Aug 2005
Present value of the obligations	(1,033)	(896)	(967)
Fair value of plan assets	946	758	871
Deficit in the pension scheme	(87)	(138)	(96)
Retirement medical benefit liabilities	-	(7)	(7)
Retirement benefit obligation recognised in the balance sheet	(87)	(145)	(103)
Deferred taxation	26	43	30
Net retirement obligation	(61)	(102)	(73)

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Notes to the Interim Financial Statements

For the 6 months to 28 February 2006

5 Retirement benefit obligation continued

In accordance with IAS 19 "Employee benefits", the liability recognised in the balance sheet represents the difference between the present value of the defined benefit obligation, using the projected unit credit method, and the fair value of the plan assets, as at the balance sheet date.

The retirement benefit obligation and the associated deferred tax asset are shown within different line items on the face of the balance sheet.

Movement in retirement benefit obligation during the period (excluding post-retirement medical benefit liabilities)

£m	6 months to		12 months to
	28 Feb 2006	28 Feb 2005	31 Aug 2005
At beginning of period	(96)	(206)	(207)
Current service cost	(5)	(5)	(10)
Interest cost	(2)	(2)	(2)
Contributions	15	71	142
Settlement	-	3	3
Disposal of subsidiary pension fund	-	20	20
Actuarial gain / (loss)	1	(19)	(42)
At end of period	(87)	(138)	(96)

Post retirement medical benefits

WH Smith PLC provides retirement medical benefits to certain pensioners. In September 2005, the members were offered the option to be bought out of this scheme, which was accepted by the majority of the members. The impact of the settlement was a £5m reduction in the net deficit. A small number of members opted to remain in the scheme and the present value of the remaining future liabilities is valued at £0.2m net of deferred taxation. The remaining liability and the associated deferred tax asset are shown within different line items on the face of the balance sheet. The valuation has been assessed by independent actuaries (Buck Consultants (Healthcare) Limited).

6 Income tax expense

£m	6 months to		12 months to
	28 Feb 2006	28 Feb 2005	31 Aug 2005
Current tax - current year	2	22	24
- prior year	(5)	(5)	(5)
Deferred tax	22	-	(3)
Income tax expense for the period	19	17	16
<i>Effective tax rate – continuing operations</i>	23%	25%	25%

Income tax for the period, using the domestic corporation tax rate, is charged at 30% (28 February 2005: 30% and 31 August 2005: 30%).

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7 Dividends

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

	6 months to 28 Feb 2006	28 Feb 2005	12 months to 31 Aug 2005
Dividend per share			
Interim - paid	-	-	4.5p
Final - paid	9.2p	8.0p	8.0p
“C” share dividend per share			
“C” share dividend paid on capital reorganisation	-	85.0p	85.0p
£m			
Dividends			
Interim – paid	-	-	7
Final - paid	16	14	14
	16	14	21
“C” share dividends			
“C” share dividend paid on capital reorganisation	-	143	143
	16	157	164

The Group also paid a dividend of £140,600 on 28 February 2006 (28 February 2005: £104,441 and 31 August 2005: £156,647) in respect of “C” shares, and paid dividends on the “B” shares of £40,563 on 28 February 2006 (28 February 2005: £44,914 and 31 August 2005: £45,192).

In addition, the directors are recommending an interim dividend in respect of the period ending 28 February 2006 of 5.1p per ordinary share (2005: 4.5p), which will absorb an estimated £9m of shareholders’ equity (2005: £7m). This will be paid on 15 June 2006 to shareholders registered at the close of business on 19 May 2006.

8 Earnings /(loss) per share

a) Earnings

£m	6 months to 28 Feb 2006	28 Feb 2005	12 months to 31 Aug 2005
Continuing operations:			
Profit for the period attributable to shareholders	57	51	55
Operating exceptional items net of related taxation	(3)	-	-
Pension interest net of related taxation	2	1	1
Headline earnings attributable to shareholders – continuing operations	56	52	56
Discontinued operations:			
Loss for the period attributable to shareholders	-	(8)	(8)
Pension interest net of related taxation	-	-	-
Headline earnings attributable to shareholders – discontinued operations	-	(8)	(8)
Total profit for the period attributable to shareholders	57	43	47
Total headline earnings attributable to shareholders	56	44	48

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8 Earnings / (loss) per share continued

b) Basic earnings / (loss) per share

	6 months to 28 Feb 2006	28 Feb 2005	12 months to 31 Aug 2005
Continuing operations:			
Earnings per share	33.1p	27.9p	31.1p
Exceptional items net of related taxation	(1.7)p	-	-
Pension interest net of related taxation	1.2p	0.5p	0.5p
Headline earnings per share – continuing operations	32.6p	28.4p	31.6p
Discontinued operations:			
Loss per share	-	(4.4)p	(4.5)p
Pension interest net of related taxation	-	-	-
Loss per share – discontinued operations	-	(4.4)p	(4.5)p
Total basic earnings per share (note a)	33.1p	23.5p	26.6p
Total headline earnings per share (note b)	32.6p	24.0p	27.1p

c) Diluted earnings / (loss) per share

	6 months to 28 Feb 2006	28 Feb 2005	12 months to 31 Aug 2005
Continuing operations:			
Earnings per share	32.7p	27.9p	30.7p
Exceptional items net of related taxation	(1.7)p	-	-
Pension interest net of related taxation	1.1p	0.5p	0.6p
Headline earnings per share – continuing operations	32.1p	28.4p	31.3p
Discontinued operations:			
Loss per share	-	(4.4)p	(4.4)p
Pension interest net of related taxation	-	-	-
Loss per share – discontinued operations	-	(4.4)p	(4.4)p
Total diluted earnings per share (note a)	32.7p	23.5p	26.3p
Total diluted headline earnings per share (note b)	32.1p	24.0p	26.9p

a) Basic earnings per share and diluted earnings per share is calculated using profit after tax for the period.

b) Basic headline earnings per share and diluted headline earnings per share is calculated using profit after tax but before exceptional items and net interest charges on pension schemes.

c) Diluted earnings per share takes into account various share awards and share options, including SAYE schemes, which are expected to vest at 28 February 2006, and for which a sum below fair value will be paid.

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8 Earnings / (loss) per share continued

d) Weighted average share capital

Millions	6 months to		12 months to
	28 Feb 2006	28 Feb 2005	31 Aug 2005
Weighted average shares in issue for earnings per share	172	183	177
Add weighted average number of ordinary shares under option	3	-	2
Weighted average ordinary shares for fully diluted earnings per share	175	183	179

The weighted number of ordinary shares in issue is stated after excluding 8,928,064 (2005: 8,961,515) 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 2006	28 Feb 2005	31 Aug 2005
Finance costs less investment income	6	3	9
Operating lease rentals	76	72	149
Property taxes	21	18	37
Other property costs	5	6	10
Total fixed charges	108	99	205
Profit before tax	76	68	71
Profit before tax and fixed charges	184	167	276
Fixed charges cover	1.7x	1.7x	1.4x

Fixed charges cover is calculated by dividing profit before tax and fixed charges by total fixed charges.

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Notes to the Interim Financial Statements

For the 6 months to 28 February 2006

10 Analysis of net debt

£m	At 28 Feb 2006	At 28 Feb 2005	At 31 Aug 2005
Cash and cash equivalents	63	35	46
Current asset investment	-	60	-
Debt due within one year	(50)	(26)	(45)
Finance leases	(16)	(10)	(20)
Debt due after more than one year	(9)	(67)	(37)
Net debt	(12)	(8)	(56)

Movements in net debt can be further analysed as follows:

£m	At 28 Feb 2006	Cash flow	Non-cash	IAS 32 and 39 reclassification	At 31 Aug 2005
Cash and cash equivalents	63	17	-	-	46
Debt					
- Sterling floating rate	(30)	20	-	-	(50)
- Sterling fixed rate	(22)	10	-	-	(32)
- 'B' and 'C' shares classified as financial liabilities	(7)	-	-	(7)	-
Finance lease creditor	(16)	4	-	-	(20)
Net (debt) / funds	(12)	51	-	(7)	(56)

At 28 February 2006, floating rate debt constitutes (1) £15m of unsecured term loan bearing an interest rate of one month LIBOR plus 155 basis points and (2) £15m 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. Fixed rate debt constitutes (1) £20m of unsecured term loan bearing an interest rate of 6.47% and (2) £2m of undated 5.125% unsecured (redeemable at par) loan stock.

On 27 March 2006, the company repaid both the £15m unsecured floating term loan and the £20m fixed unsecured term loan.

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11 Net cash inflow / (outflow) from operating activities

£m	6 months to		12 months to
	28 Feb 2006	28 Feb 2005	31 Aug 2005
Operating profit / (loss)	82	71	80
Operating exceptional items	(5)	-	-
Adjustment for pension funding	(9)	(126)	(132)
Depreciation of property, plant and equipment	18	22	43
Profit on sale of property, plant and equipment (note a)	(4)	-	-
Impairment of property, plant and equipment (note a)	2	-	-
Amortisation of intangible assets	3	2	4
Share based payments	4	1	2
(Increase) / decrease in inventories	(9)	(13)	6
(Increase) / decrease in receivables	(18)	(20)	1
Increase / (decrease) in payables	4	8	(7)
Income taxes paid	-	(3)	(4)
Corporate advisory costs	-	(8)	(9)
Cash spend against provisions	(1)	(2)	(6)
Net cash inflow / (outflow) from operating activities before exceptional items	67	(68)	(22)
Cash outflow relating to exceptional operating item (PRMB settlement)	(2)	-	-
Net cash inflow / (outflow) from operating activities	65	(68)	(22)

- a) High Street Retail generated £3m of the profit on sale of property, plant and equipment, with the balance relating to News Distribution. During the period there was a £2m impairment charge for property, plant and equipment in High Street Retail.

12 First time adoption of IAS 39 “Financial Instruments: Recognition and Measurement”

As permitted by IFRS 1 “First time Adoption of International Financial Reporting Standards”, the Group has elected to defer the implementation of IAS 39 until the year ending 31 August 2006. The effect of the adoption of IAS 39 is to reduce net assets by £7m resulting from the reclassification of non-equity share capital to financial liabilities. The Group has designated the majority of its foreign exchange derivatives as cash flow hedges as at 1 September 2005; there was no effect on the balance sheet in respect of this. The adjustments on the balance sheet as at 1 September 2005 are summarised below:

£m	At 31 Aug 2005	Transitional adjustments	At 1 Sept 2005
Non-current liabilities			
Bank loans and other borrowings	(37)	(7)	(44)
Shareholders' equity			
Deferred shares and “C” shares reserve	153	(7)	146

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Notes to the Interim Financial Statements

For the 6 months to 28 February 2006

13 Summary of the impact of IFRS on the comparative periods – Income Statement

The adjustments to the Income statement for the comparative periods are summarised below:

£m	6 months to 28 February 2005			12 months to 31 August 2005		
	As reported UK GAAP	IFRS adjustments	As restated IFRS	As reported UK GAAP	IFRS adjustments	As restated IFRS
Continuing operations						
Revenue	1,370	(11)	1,359	2,508	(11)	2,497
Operating profit	72	(1)	71	80	-	80
Investment income	3	-	3	3	-	3
Finance costs	(6)	-	(6)	(11)	(1)	(12)
Profit before tax	69	(1)	68	72	(1)	71
Income tax expense	(18)	1	(17)	(18)	2	(16)
Profit after tax – continuing operations	51	-	51	54	1	55
Loss for the year from discontinued operations	(8)	-	(8)	(8)	-	(8)
Profit for the year	43	-	43	46	1	47

The adjustments made to the Income statement as a result of the transition to IFRS are analysed further below:

£m	6 months to 28 Feb 2005	12 months to 31 Aug 2005
Revenue		
IFRS 5 “Non-current assets” – reclassification of revenue		(11)
Operating profit		
IFRS 2 “Share based payments” - recognition of share based payments	(1)	(2)
IAS 17 “Leasing” – reclassification of operating leases as finance leases	-	1
IAS 19 “Employee benefits” – recognition of holiday pay	(1)	-
IFRS 3 “Business combinations” – reversal of goodwill amortisation	1	1
	(1)	-
Finance costs		
IAS 17 “Leasing” – reclassification of operating leases as finance leases	-	(1)
Income tax expense		
Tax effect of IFRS adjustments to Income statement		1
		2
Net effect on Income statement on transition to IFRS	-	1

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Notes to the Interim Financial Statements

For the 6 months to 28 February 2006

14 Summary of the impact of IFRS on the comparative periods – Balance sheet

The adjustments to the Balance sheets for the comparative periods are summarised below:

£m	Note	At 28 February 2005			At 31 August 2005		
		As reported UK GAAP	IFRS Adjustments	As reported IFRS	As reported UK GAAP	IFRS Adjustment	As reported IFRS
Non-current assets							
Goodwill	a	14	1	15	14	1	15
Other intangible assets	a	-	20	20	-	18	18
Property, plant and equipment	b	219	(12)	207	231	(12)	219
Deferred tax assets	c	-	48	48	20	37	57
		233	57	290	265	44	309
Current assets							
Inventories		181	-	181	162	-	162
Trade and other receivables	d	140	(1)	139	112	(1)	111
Current asset investment		60	-	60	-	-	-
Cash and cash equivalents		35	-	35	46	-	46
		416	(1)	415	320	(1)	319
Total assets		649	56	705	585	43	628
Current liabilities							
Trade and other payables	e	(328)	6	(322)	(319)	16	(303)
Current tax liabilities		(28)	-	(28)	(27)	-	(27)
Obligations under finance leases	f	-	(4)	(4)	(3)	(3)	(6)
Bank overdrafts and loans		(26)	-	(26)	(45)	-	(45)
Short-term provisions	g	-	(7)	(7)	-	(5)	(5)
		(382)	(5)	(387)	(394)	8	(386)
Net current assets / (liabilities)		34	(6)	28	(74)	7	(67)
Non-current liabilities							
Bank loans and other borrowings		(67)	-	(67)	(37)	-	(37)
Retirement benefit obligation	h	(101)	(44)	(145)	(71)	(32)	(103)
Deferred tax liabilities	i	-	(14)	(14)	-	(16)	(16)
Long-term provisions	j	(31)	20	(11)	(31)	19	(12)
Obligations under finance leases	k	-	(6)	(6)	(9)	(5)	(14)
Other non-current liabilities	l	(2)	(8)	(10)	(1)	(7)	(8)
		(201)	(52)	(253)	(149)	(41)	(190)
Total liabilities		(583)	(57)	(640)	(543)	(33)	(576)
Total net assets		66	(1)	65	42	10	52
Shareholders' equity							
Called up share capital		4	-	4	4	-	4
Deferred and "C" shares reserve		153	-	153	153	-	153
Share premium account		15	-	15	17	-	17
Other reserves		187	-	187	187	-	187
Retained earnings	m	(293)	(1)	(294)	(319)	10	(309)
Total equity		66	(1)	65	42	10	52

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Notes to the Interim Financial Statements

For the 6 months to 28 February 2006

14 Summary of the impact of IFRS on the comparative periods – Balance sheet continued

The principal IFRS transition adjustments made to the balance sheet for the comparative periods are summarised below:

£m	At 28 February 2005	At 31 August 2005	
a) Intangible assets			
IFRS 3 “Business Combinations” – reversal of goodwill amortisation	1		1
IAS 38 “Intangible assets” – reclassification of capitalised software as intangible assets	20		18
b) Property, plant and equipment			
IAS 38 – reclassification of capitalised software as intangible assets	(20)	(18)	
IAS 17 “Leases” – reclassification of operating leases as finance leases	10	8	
IAS 36 “Impairment of assets” – recognition of impairment of fixed assets	(2)	(2)	(12)
c) Deferred tax assets			
IAS 19 “Employee benefits” – reclassification of deferred tax asset on pension liability	43	30	
IAS 37 “Provisions, contingent assets and contingent liabilities” – transfer of non-current deferred tax provision to non-current assets	2	2	
Deferred tax assets created from IAS adjustments to opening reserves	3	5	37
d) Trade and other receivables			
IAS 17 – reversal of operating lease prepayment on reclassification of operating leases to finance leases		(1)	(1)
e) Trade and other payables			
IAS 10 “Events after balance sheet date” – de-recognition of dividend accrual	7	16	
IAS 19 – recognition of holiday pay accrual	(1)	-	16
f) Obligations under finance leases			
IAS 17 – recognition of the current liabilities relating to finance lease creditors previously classified as operating leases under UK GAAP		(4)	(3)
g) Short term provision			
IAS 37 – reclassification of provisions as short-term		(7)	(5)
h) Retirement benefit obligation			
IAS 19 – transfer deferred tax asset element of pension deficit to deferred tax asset	(43)	(30)	
IAS 19 – effect of mid price to bid price pension valuation	(1)	(2)	(32)
i) Deferred tax liabilities			
IAS 37 – reclassification of deferred tax liability element of the tax provision	(15)	(16)	
Changes to deferred tax liabilities arising from IAS adjustments to opening reserves	1	-	(16)
j) Long-term provisions			
IAS 37 – effect of reclassification of provisions into correct IAS balance sheet headings		20	19
k) Obligations under finance leases			
IAS 17 – recognition of the non-current liabilities relating to finance lease creditors previously classified as operating leases under UK GAAP		(6)	(5)
l) Other non-current liabilities			
IAS 17 – re-instatement of lease incentives under IAS, previously taken to income under UK GAAP		(8)	(7)
m) Cumulative effect on retained earnings			
		(1)	10

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Notes to the Interim Financial Statements

For the 6 months to 28 February 2006

15 Summary of the impact of IFRS on date of transition – Balance sheet

The adjustments to the Balance sheets at the date of transition (1 September 2004) are summarised below:

£m	Note	As reported UK GAAP	IFRS Adjustment	As reported IFRS
Non-current assets				
Goodwill	a	164	(149)	15
Other intangible assets	a	-	23	23
Property, plant and equipment	b	237	(21)	216
Deferred tax assets	c	-	68	68
		401	(79)	322
Current assets				
Inventories	d	184	(17)	167
Trade and other receivables	e	212	(75)	137
Cash and cash equivalents		64	-	64
		460	(92)	368
Assets held for sale	f	-	247	247
		460	155	615
Total assets		861	76	937
Current liabilities				
Trade and other payables	g	(367)	51	(316)
Current tax liabilities		(30)	-	(30)
Obligations under finance leases	h	-	(4)	(4)
Bank overdrafts and loans		(17)	-	(17)
Short-term provisions	i	-	(10)	(10)
		(414)	37	(377)
Net current assets / (liabilities)		46	192	238
Non-current liabilities				
Bank loans and other borrowings		(2)	-	(2)
Retirement benefit obligation	j	(149)	(65)	(214)
Deferred tax liabilities	k	-	(17)	(17)
Long-term provisions	l	(38)	25	(13)
Obligations under finance leases	m	-	(6)	(6)
Other non-current liabilities	n	(2)	(8)	(10)
		(191)	(71)	(262)
Non current assets held for sale	o	-	(37)	(37)
Total liabilities		(605)	(71)	(676)
Total net assets		256	5	261
Shareholders' equity				
Called up share capital		141	-	141
Share premium account		93	-	93
Other reserves		132	-	132
Retained earnings	p	(110)	5	(105)
Total equity		256	5	261

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Notes to the Interim Financial Statements

For the 6 months to 28 February 2006

15 Summary of the impact of IFRS on date of transition – Balance sheet continued

The principal IFRS adjustments made to the Balance sheet at date of transition (1 September 2004) are summarised below:

	£m	£m
a) Intangible assets		
IFRS 5 “non-current assets held for sale and discontinued operations” – reclassification of Hodder Headline (“Hodder”) goodwill as a non-current asset held for sale		(149)
IAS 38 – reclassification of capitalised software as intangible assets		23
b) Property, plant and equipment (“PPE”)		
IAS 38 – reclassification of capitalised software as intangible assets	(23)	
IFRS 5 – reclassification of PPE held by Hodder as non-current asset held for sale	(7)	
IAS 17 – reclassification of operating leases as finance leases	11	
IAS 36 – recognition of impairment of fixed assets	(2)	(21)
c) Deferred tax assets		
IAS 19 – reclassification of deferred tax asset on pension liability	63	
IAS 37 – transfer of non-current deferred tax provision to non-current assets	2	
Deferred tax assets created from IAS adjustments to opening reserves	3	68
d) Inventories		
IFRS 5 – reclassification of inventories held by Hodder as non-current assets held for sale		(17)
e) Trade and other receivables		
IFRS 5 – reclassification of trade and other receivables held by Hodder as non-current assets held for sale	(74)	
IAS 17 – reversal of operating lease prepayment on reclassification of operating leases to finance leases	(1)	(75)
f) Assets held for sale		
IFRS 5 – recognition of the assets and liabilities of Hodder as a non-current asset held for sale		247
g) Trade and other payables		
IFRS 5 – reclassification of trade / other payables held by Hodder as non-current assets liabilities held for sale	37	
IAS 10 – de-recognition of dividend accrual	14	51
h) Obligations under finance leases		
IAS 17 – recognition of the current liabilities relating to finance lease creditors previously classified as operating leases under UK GAAP		(4)
i) Short term provision		
IAS 37 – reclassification of provisions as short-term		(10)
j) Retirement benefit obligation		
IAS 19 – transfer deferred tax asset element of pension deficit to deferred tax asset	(63)	
IAS 19 – effect of mid price to bid price pension valuation	(2)	(65)
k) Deferred tax liabilities		
IAS 37 – reclassification of deferred tax liability element of the tax provision		(17)
l) Long-term provisions		
IAS 37 – effect of reclassification of provisions into correct IAS balance sheet headings		25
m) Obligations under finance leases		
IAS 17 – recognition of the non-current liabilities relating to finance lease creditors previously classified as operating leases under UK GAAP		(6)
n) Other non-current liabilities		
IAS 17 – re-instatement of lease incentives under IAS, previously taken to reserves under UK GAAP		(8)
o) Non-current assets held for sale		
IFRS 5 – recognition of the non-current liabilities of Hodder as non-current liabilities held for sale		(37)
p) Cumulative effect on retained earnings		5

WH Smith PLC

Notes to the Interim Financial Statements

For the 6 months to 28 February 2006

16 Approval of Interim Statement

The Interim Statement was approved by the Board of Directors on 12 April 2006.

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 2006 which comprises the Group income statement, the Group balance sheet, the Group cash flow statement, the Group statement of recognised income and expenses, the reconciliation of movements in equity and related notes 1 to 16. We have read the other information contained in the interim report 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 report, 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 report 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.

International Financial Reporting Standards

As disclosed in note 1, the next annual financial statements of the Group will be prepared in accordance with International Financial Reporting Standards as adopted for use in the EU. Accordingly, the interim report has been prepared in accordance with the recognition and measurement criteria of IFRS and the disclosure requirements of the Listing Rules.

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 International Standards on Auditing (UK and Ireland) 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 2006.

Deloitte & Touche LLP

Chartered Accountants

London

12 April 2006

Notes: A review does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial information since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

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