

20 April 2023

WH SMITH PLC

The global travel retailer

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 28 FEBRUARY 2023

Strong first half performance ahead of expectations

- Strong first half performance with Group revenue up 41% to £859m (2022: £608m)
- Headline profit before tax and non-underlying items* of £45m (2022: £14m)
- Strong momentum across our global Travel business with significant recovery in passenger numbers, strong average transaction value ('ATV') growth, successful category expansion and further space growth
- 60 new stores won so far this year including 11 in Canada
- New store pipeline of over 120 stores won and yet to open in Travel, including 60 in North America
- Investing for growth with capex in the current financial year expected to be around £150m
- Interim dividend of 8.1p per share reflecting strong current trading and confidence in future prospects
- Total Travel trading profit* of £47m (2022: £10m)
- High Street trading profit* of £24m (2022: £26m)
- Strong start to the second half, trading momentum continues ahead of peak summer period

Carl Cowling, Group Chief Executive, commented:

"We have seen a strong performance in the first half of the year further strengthening our confidence in the prospects of our global travel business. We expect Travel to represent over 70% of Group revenue and around 85% of Group profit from trading operations by the end of this financial year.

"In North America, we continue to open new stores with 29 opened in the period and these are performing well. At the same time, we have grown our new store pipeline with significant tender wins. We have won a further 28 stores so far this year, including 11 in Canada across Calgary and Edmonton airports. In the current financial year, we expect this division to generate over £50m profit – making it our second largest division.*

"Travel UK, our largest division, has delivered a strong first half performance and has excellent growth prospects. Revenues are 19% ahead of 2019 levels despite passenger numbers being considerably below 2019 levels. This performance has been driven by our category expansion, focus on average transaction value, the success of InMotion and our travel essentials one-stop-shop format.

"I am increasingly excited by the opportunity in our Rest of the World division. Our strategy of establishing a presence in multiple countries as a base for significant growth is demonstrated well by the growth in our store estates in Spain, Germany and Australia.

"This set of results would not be possible without the fantastic efforts of our entire team and I would like to take this opportunity to thank them.

"Looking ahead, we are very well positioned to capitalise on the substantial growth drivers across our markets and we expect to make further good progress in the years ahead. Current trading is strong and we are ahead of expectations for the full year."

* Pre-IFRS 16

Group financial summary

	IFRS		Headline pre-IFRS 16 ²	
	6 months to Feb 2023	6 months to Feb 2022	6 months to Feb 2023	6 months to Feb 2022
Travel UK trading profit ¹	£31m	£9m	£31m	£3m
North America ('NA') trading profit ¹	£16m	£8m	£14m	£8m
Rest of the World ('ROW') trading profit/(loss) ¹	£2m	£(2)m	£2m	£(1)m
Total Travel trading profit ¹	£49m	£15m	£47m	£10m
High Street trading profit ¹	£32m	£35m	£24m	£26m
Group profit from trading operations ¹	£81m	£50m	£71m	£36m
Group profit before tax and non-underlying items ¹	£47m	£24m	£45m	£14m
Diluted earnings per share before non-underlying items ¹	24.8p	13.0p	23.3p	6.9p
Non-underlying items ¹	£(2)m	£(6)m	£(2)m	£(3)m
Group profit before tax	£45m	£18m	£43m	£11m
Basic earnings per share	24.6p	9.2p	23.1p	5.3p
Diluted earnings per share	24.1p	9.2p	22.6p	5.3p

Revenue performance

	6 months to Feb 2023 £m	6 months to Feb 2022 £m	% change
Travel UK	314	189	66%
North America	177	116	53%
Rest of the World	102	33	209%
Total Travel	593	338	75%
High Street	266	270	(1)%
Group	859	608	41%

¹ Alternative Performance Measure (APM) defined and explained in the Glossary on page 37.

² The Group adopted IFRS 16 'Leases' with effect from 1 September 2019. The Group continues to monitor performance and allocate resources based on pre-IFRS 16 information (applying the principles of IAS 17), and therefore the results for the periods ended 28 February 2023, 31 August 2022 and 28 February 2022 have been presented on both an IFRS 16 and a pre-IFRS 16 basis.

Measures described as 'Headline' are presented pre-IFRS 16.

For the purposes of narrative commentary on the Group's performance and financial position, both pre-IFRS 16 and IFRS 16 measures are provided. Reconciliations from pre-IFRS 16 measures to IFRS 16 measures are provided in the Glossary on page 37. Group revenue was not affected by the adoption of IFRS 16, and therefore all references to and discussion of revenue are based on statutory measures.

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WH Smith PLC's Interim Results 2023 are available at [whsmithplc.co.uk](https://www.whsmithplc.co.uk).

GROUP OVERVIEW

The Group has delivered a strong first half performance and continues to go from strength to strength as a global travel retailer. At the end of this financial year, we expect the Travel division to represent over 70% of Group revenue and c.85% of Headline Group profit from trading operations¹.

We continue to capitalise on multiple growth opportunities including the significant recovery in passenger numbers, growing average transaction value, expanding our categories, and winning new stores across the globe utilising our broad suite of brands. As a result, the Group is in its strongest ever position as a global travel retailer.

We have had another very successful period in winning new business. Across North America, Rest of the World and the UK we have won 60 stores so far this financial year and we now have over 120 stores won and due to open, with over 50 stores scheduled to open in the second half.

Our progress and success is supported by the key pillars of our strategy and our ongoing forensic approach to retailing across each of our businesses. These include:

TRAVEL

- **Space growth:**
 - Opening new stores;
 - Winning new business; going forward we would expect to win, on average, over 50 stores each year;
 - New, better quality space;
 - Extending contracts;
 - Developing formats and brands
- **ATV growth:**
 - Space management;
 - Refitting stores;
 - Range development
- **Category development:**
 - One-stop-shop travel essentials format;
 - Developing the InMotion brand;
 - Improving ranges, e.g. health and beauty, food to go, and tech accessories
- **Cost and cash management:**
 - Flexible rent model;
 - Investing for growth (capex in the current financial year expected to be around £150m);
 - Productivity and efficiencies

HIGH STREET

- Maintain profitability and cash generation of UK High Street business and grow our digital businesses

CAPITAL ALLOCATION POLICY

- Disciplined capital allocation, supporting investment in growth and shareholder returns

Group revenue

	Revenue 6 months to Feb 2023		Revenue 6 months to Feb 2023		7 weeks to 15 April 2023 ⁸
	Total vs 2022	LFL ¹ vs 2022	Total vs 2019 ³	LFL ¹ vs 2019 ³	Total vs 2019 ³
Travel UK	66%	52%	19%	2%	24%
North America	53%	22%	22% ⁴	(2)%	33% ⁴
Rest of the World	209%	122%	31% ⁵	(1)%	46% ⁵
Total Travel	75%	48%	48%⁶	1%	59%⁶
High Street ⁷	(1)%	-%			
Group	41%	27%			

Total Group revenue at £859m (2022: £608m) was up 41% for the first six months compared to the prior year.

In Travel, we saw a strong performance across all our markets and a rebound in profitability. Total Travel revenue for the first half was up 48%⁶ versus 2019³ and up 1% on a like-for-like¹ ('LFL') basis. This was driven by strong performances in all three Travel divisions with the UK up 19%, North America up 22%⁴, and ROW up 31%⁵ on 2019³. In UK Travel, Air was our strongest channel with LFL sales up 4% versus 2019³, despite passenger numbers still around 15% behind 2019³ during the period. In North America, TSA data shows passenger numbers in the half down 4% versus 2019³. Our LFL¹ revenue was down 2%. This includes very strong sales in InMotion in the comparative period following the launch of Apple AirPods in 2019. Air and Resorts in MRG were both ahead of 2019 on a LFL¹ basis.

Compared to last year, revenue in Travel was up 75% in total, with Travel UK up 66%, North America up 53% and ROW up 209%, driven by the strong recovery in passenger numbers and our key growth initiatives.

We saw a consistently good performance in High Street throughout the period, with the important Christmas trading period flat year on year on a LFL basis.

We are pleased with the start to the second half. In the 7 week period to 15 April 2023, Travel revenue was up 59% with all three divisions continuing to perform well. In the UK, we saw a strong performance over Easter despite passenger numbers still well below 2019 levels. Looking forward, this is likely to be the last time we report against 2019 as it is becoming a progressively less relevant comparison.

Group profit

For the six month period to 28 February 2023, Travel delivered a Headline trading profit¹ of £47m (2022: £10m). In UK Travel, Headline trading profit¹ increased by £28m to £31m and in North America, Headline trading profit¹ increased by £6m to £14m, in both cases driven by a recovery in sales and improved margins. ROW delivered a Headline trading profit¹ of £2m.

High Street delivered a Headline trading profit¹ of £24m (2022: £26m), in line with expectations.

Headline Group profit from trading operations¹ for the period was £71m (2022: £36m) with Headline Group profit before tax and non-underlying items¹ at £45m (2022: £14m).

The Group profit before tax, including non-underlying items and on an IFRS 16 basis, was £45m (2022: £18m) in the period.

³ Equivalent month in 2019

⁴ 2019 comparatives include pro forma North America adjustment, at constant currency

⁵ Constant currency

⁶ As reported (excludes 2019 pro forma North America adjustment)

⁷ Includes internet businesses

⁸ Adjusted for the timing of Easter in 2019

Group balance sheet

The Group has a strong balance sheet, is very cash generative and has substantial liquidity. In addition to £327m of convertible bonds which mature in 2026 and £126m of term loan with a maturity in 2025, the Group has an undrawn £250m Revolving Credit Facility ('RCF'), which matures in 2025.

The Group has the following cash, committed facilities and drawn debt as at 28 February 2023:

	28 February 2023	Maturity
Cash and cash equivalents ⁹	£46m	
Revolving Credit Facility ¹⁰	£250m	April 2025
Term loan ¹¹	£126m	April 2025
Convertible bonds	£327m	May 2026

The Group pays a fixed coupon at 1.625% on the convertible bonds and the term loan is interest bearing at a margin over SONIA. Therefore around 70% of our debt is at fixed interest rates.

As at 28 February 2023, Headline net debt¹ was £378m (31 August 2022: £296m) with access to over £270m of liquidity (£24m cash on deposit and £250m undrawn RCF).

Group cash flow

The Group generated an operating cash flow¹ of £90m in the half demonstrating the cash generative nature of the business. Capital investment was £60m (2022: £38m) as we continued to invest in new stores, IT and energy efficient store fixtures and fittings. We had a working capital outflow of £79m in the period (2022: £36m). Of this outflow, c.£40m results from the usual working capital cadence in the Group, where there has always been a large working capital outflow in the first half, due to the seasonality in the Travel business. The balance mainly relates to the investment in new stores and the recovering Travel business. In total there was a free cash outflow in the half of £66m.

For the full year, we expect to generate a free cash inflow, reflecting the normal working capital cadence of the Group and the substantial level of operating cash flows¹ generated by the Group during the second half. We anticipate full year debt to be in the region of £325m-£335m.

Capital allocation policy

The Group's disciplined approach to capital allocation remains unchanged:

- investing in our existing business and in new opportunities where rates of return are ahead of the cost of capital;
- paying a dividend, we have a progressive dividend policy with a target dividend cover of 2.5x;
- undertaking attractive value-creating acquisitions in strong and growing markets;
- returning surplus cash to shareholders via share buy backs.

Leverage at 28 February 2023 was 2.0x Headline EBITDA¹. We have a target leverage level of between 0.75x and 1.25x Headline EBITDA¹ and we anticipate being close to the top end of this envelope by the end of this financial year and to be annualising within it, even with this year's significant investment programme.

Dividend

The Board has declared an interim dividend of 8.1p per share. This reflects our strong start to the year, the cash generative nature of the business and our confidence in the future prospects of the business. Our intention is to return, in time, to a cover ratio of around 2.5 times earnings, paid on an interim and final basis on a 1/3:2/3 split. The dividend will be paid on 3 August 2023.

⁹ Cash and cash equivalents comprises cash on deposit of £24m and cash in transit of £22m

¹⁰ Undrawn as at 28 February 2023 and 19 April 2023

¹¹ Repayments of £27m are due within 12 months and are recorded as current liabilities (see Note 10 to the Financial Statements)

TOTAL TRAVEL

Total revenue for the period was £593m (2022: £338m), up 75% compared to the previous year from our key growth initiatives and as passenger numbers continue to recover, generating a Total Travel Headline trading profit¹ of £47m (2022: £10m).

£m	Trading profit/(loss) ¹ IFRS		Headline trading profit/(loss) ¹ pre-IFRS 16		Revenue	
	6 months to Feb 2023	6 months to Feb 2022	6 months to Feb 2023	6 months to Feb 2022	6 months to Feb 2023	6 months to Feb 2022
Travel UK	31	9	31	3	314	189
North America	16	8	14	8	177	116
Rest of the World	2	(2)	2	(1)	102	33
Total Travel	49	15	47	10	593	338

In Travel, we continue to focus on initiatives that position us well for future growth:

- Space growth - Business development and winning new business**
 Through building and managing relationships with all our landlord partners, we look to win new space, improve the quality and amount of space, develop new formats and extend contracts. During the half we opened 62 stores, and so far this year we have won 60 additional stores. We now have a store pipeline of over 120 stores, which are due to open over the next three years. Going forward, we expect to win, on average, over 50 stores each year.
- ATV growth and spend per passenger**
 We aim to grow ATV through our forensic analysis of the return on our space, cross-category promotions, merchandising, store layouts and store refits. During the period, we have continued to focus on re-engineering our ranges and we continue to see good ATV growth, compared to 2019, across all our channels.
- Category development**
 We do this by developing adjacent product categories relevant for our customers, such as health and beauty and tech accessories ranges, and expanding existing categories such as premium food. Throughout the half, we have focused on identifying further opportunities where we can reposition our traditional news, books and convenience ('NBC') format to a one-stop-shop travel essentials format. The results from our one-stop-shop travel essentials format have been positive.
- Cost and cash management**
 We remain focused on cost efficiency and productivity, for example, by investing in more energy efficient chillers in-store and increasing the number of self scan tills, particularly in North America.

Passenger numbers have recovered strongly, albeit they are still below 2019 levels. In addition, we are very well positioned to further capitalise on the significant space growth opportunities across our markets.

TRAVEL UK

Travel UK, our largest division, has excellent growth prospects. Air passenger numbers are still around 15% below pre-pandemic levels and we are therefore confident that, as passenger numbers continue to recover, this division will see an ongoing improvement in profitability. All our channels in Travel UK have performed strongly in the period with total revenue growth of 66% versus last year and 19% versus 2019³. The second half has also started strongly with total sales up 24% on 2019³ for the first seven weeks.

Our analysis shows that passenger demand for travel in summer 2023 is strong and, in line with most industry commentators, we remain optimistic that passenger numbers will fully recover during 2024.

	Revenue 6 months to Feb 2023	
	Total vs 2022	LFL ¹ vs 2022
Air	124%	89%
Hospitals	34%	30%
Rail	25%	28%
Total Travel UK	66%	52%

Revenue 6 months to Feb 2023		7 weeks to 15 April 2023 ⁸
Total vs 2019 ³	LFL ¹ vs 2019 ³	Total vs 2019 ³
35%	4%	38%
21%	9%	32%
(13)%	(8)%	(8)%
19%	2%	24%

Total revenue in the period was £314m (2022: £189m) which, together with improved margins, resulted in a Headline trading profit¹ of £31m (2022: £3m).

Across all our channels, we continue to focus on our key growth drivers: space growth, increasing ATV and spend per passenger, driving EBIT margins and the recovery in passenger numbers. We are seeing good results, with revenue growing ahead of passenger numbers.

We are investing in our UK store portfolio while also identifying new and better quality space opportunities across each of our channels. During the half, we have made good progress opening 7 new stores, including 1 airport, 4 hospitals and our first standalone M&S Food store in Rail at Glasgow Queen Street station. We are on track to open a further 11 stores in the second half of the financial year.

In 2019, we developed the one-stop-shop format in our larger stores at London Gatwick and London Heathrow airports. Both of these stores are trading very well. This summer, we will begin the refit of our largest store at Birmingham airport into this new format, combining an extensive range of pharmacy and health and beauty products with the traditional WHSmith offer under one roof. Using the same format in Rail, we opened a store at London Euston station last year, which is also performing very strongly.

In addition to the larger one-stop-shop format, we continue to see further opportunities to expand this format into our smaller stores by better utilising our space, extending our categories and improving our ranges. We have successfully achieved this across a number of stores in our Air and our Hospital channels and we are now using this format in 8 major Network Rail locations.

By extending our categories such as health and beauty, tech, food to go and pharmacy products, we are able to provide time-pressed customers with all their travel essentials under one roof with a fast and convenient shopping experience. This enables us to expose both new and existing customers to a broader range of categories, which has resulted in an increase in sales per square metre, a higher ATV and spend per passenger. This delivers good returns with improved margins and attractive economics for our landlords.

During the half, we have also made excellent progress developing our food offer. By introducing new premium third party brands, such as Yo! Sushi, Crussh and M&S, and by adding more chiller space in Air and Rail, we are delivering a significant uplift in sales from this category with food sales up 54% versus 2019.

Looking ahead, we will continue to focus on expanding our proposition and identifying opportunities where we can reposition our traditional news, books and convenience format to a unique one-stop-shop for travel essentials.

Our Rail channel has performed creditably, despite the impact of industrial action. Without strikes LFL¹ revenue in this channel would have been close to 2019 levels, showing the strength of the recovery in Rail.

Our InMotion stores across UK airports continue to deliver a strong performance and are trading materially ahead of our initial expectations. We now believe the brand can deliver annual revenue of c.£90m. Combining the learnings and expertise from our InMotion stores in the US, as well as the results of extensive customer research in the UK, these stores provide a first-class customer service experience and showcase a range of premium brands, such as Apple, Bose, Sony and Samsung, as well as an extensive range of tech accessories. These InMotion airport stores are increasingly

becoming a launchpad for the latest tech product launches and, as a result, they are delivering a strong performance.

As at 28 February 2023, Travel UK had 585 stores. Over the next three years, we expect to win and open an additional 10 to 15 stores each year in UK Travel, with the majority of the new stores in the Hospital channel.

NORTH AMERICA

We saw a strong performance from North America in the first half of the financial year. Total revenue for the half was £177m (2022: £116m), an increase of 53%, of which 20% was due to changes in exchange rates. Headline trading profit¹ was £14m (2022: £8m), reflecting the strong recovery in passenger numbers, improved margins and a small benefit from foreign exchange. In the current financial year, we are expecting to generate over £50m of trading profit¹ from this division despite the disruption caused by the pandemic, which is double the pro forma profits at the time of acquisition. TSA data for the first half showed passenger numbers were 4% below 2019 levels with international passengers recovering strongly in the half.

The second half has started well with total sales in North America, 33%⁴ ahead of 2019³.

Our North America business has become an increasingly significant part of the Group and at the end of this financial year will be our second largest division in profit terms, after Travel UK. The growth prospects are substantial and we are excited by the significant opportunities to grow this business further.

The US is the largest travel retail market in the world with annual sales, pre-pandemic, at \$3.2bn. Our analysis of the North American market shows that there were a total of approximately 2,000 news and gift and specialty retail stores in the top 70 airports, giving our North America business a market share of c.13%¹². With our continued success rate of winning new tenders and our expectation of the amount of space likely to come to the market for tender over the medium-term, we are well placed to significantly grow our North America market share.

We have applied our forensic approach to retailing from the UK to the US market and are seeing good results. This includes, space management, category development to higher margin products such as health and beauty and tech, enhanced promotional activity and increased operational efficiencies, for example self-scan tills which we started to introduce earlier this financial year.

We continue to grow our North America business at pace. During the half, we have opened some significant new stores at Kansas City, Nashville and Newark airports. Following the opening of our stores at LaGuardia in 2021, we have steadily grown our presence in the New York region and, during the period, we opened 7 of the 13 stores in Newark which are part of a 15 year contract in this significant East Coast airport. These stores operate under a number of different brands, showcasing the location of the airport and have a uniquely curated localised product offering. Early results are good, and customer and landlord feedback has been positive.

We still have a very strong pipeline of new store openings. So far this year, we have won an additional 28 stores, including 11 stores in Canada, across Calgary and Edmonton airports, as well as further stores in Oakland, Palm Springs, Washington Reagan and Las Vegas airports.

Including the 29 store openings in the first half, we now have 222 stores in Air (including 120 InMotion stores) and 97 stores in Resorts.

REST OF THE WORLD

Total revenue for the half in ROW was £102m (2022: £33m) as passenger numbers recovered and we opened more stores. Headline trading profit¹ was £2m (2022: loss of £1m).

Revenue in the first 7 weeks of the second half was 46%⁵, ahead of 2019³.

Our strategy for this division is clear: to enter key countries, build our presence from a small base, better understand the market, create efficiencies (such as our EU distribution hub), and build global supplier relationships, while delivering good returns. We are now present in 28 countries with significant market share opportunities across multiple territories including Australia, Scandinavia and Germany.

¹²Based on store numbers; including stores won and yet to open

Our compelling proposition, combined with our current low market share, means there is significant opportunity to grow this business in new and existing territories through our traditional NBC retail proposition and with technology tenders under the InMotion brand. We will continue to use our three operating models of directly run, joint venture and franchise, in order to create value and win new business.

During the half, we opened 26 new stores, including stores in Australia, Spain, Belgium and Malaysia. All of these stores were delivered and opened to plan and they are trading well. In the balance of this financial year, we anticipate opening a further 33 new stores.

By localising our store designs and product ranges, as we do in North America, we have had another very successful half in winning new stores, particularly in Europe. Utilising this expertise, we have won a further 15 new stores in the period.

We also continue to see good opportunities to win new business in the tech accessories market under our InMotion brand. During the period, we have won 3 InMotion stores in Rome. We have won a total of 13 InMotion stores outside of the UK and North America, of which 5 are open. We remain well positioned to benefit from further opportunities, as more space becomes available.

We now have 321 stores open and a further 59 won and yet to open. Of the 321 stores open, 48% are directly-run, 9% are joint venture and 43% are franchise.

Region	Number of stores
Europe	116
Middle East and India	87
Asia Pacific	118

Total Travel stores

During the half, we opened 62 stores in Travel. As at 28 February 2023, our global Travel business operated from 1,226 units (31 August 2022: 1,196 units). As at 28 February 2023, we are present in over 120 airports and 31 countries with 320 stores in North America, 116 in Europe, 87 in the Middle East and India and 118 in Asia Pacific. As part of our strategy to improve the quality of our space, we closed 32 stores in the period, largely in marginal locations. Excluding franchise units, Travel occupies 1.1m square feet.

HIGH STREET

During the half, High Street delivered a good performance with Headline trading profit¹ of £24m (2022: £26m), as expected, and revenue of £266m (2022: £270m). We managed the business tightly, keeping focused on costs and cash generation. We delivered a good performance in Books, supported by Prince Harry's autobiography '*Spare*' and we saw a good performance from Mother's Day across our stores and digital channels.

The strategy we have in place in our High Street business remains as relevant today as it has ever been and focuses on delivering robust and sustainable cashflows and profits.

Driving efficiencies remains a core part of that strategy and we continue to focus on all areas of cost in the business. During the first half, we have delivered savings of £7m and we are on track to deliver savings of £13m in the current year. These savings come from right across the business, including rent savings at lease renewal (on average over 50%) which continue to be a significant proportion, marketing efficiencies and productivity gains from our distribution centres.

Over the years, we have actively looked to put as much flexibility into our store leases as we can, and this leaves us well positioned in the current environment where rents are falling. The average lease length in our High Street business, including where we are currently holding over at lease end, is under 2 years. We only renew a lease where we are confident of delivering economic value over the life of that lease. We have c.450 leases due for renewal over the next three years, including over 150 where we are holding over and in negotiation with the landlord. The store closure process is cash neutral.

As at 28 February 2023, the High Street business operated from 523 stores (31 August 2022: 527) which occupy 2.5m square feet (31 August 2022: 2.5m square feet). 4 stores were closed in the period (31 August 2022: 17).

Funkypigeon.com delivered total revenue of £17m (2022: £21m) and Headline EBITDA¹ of £1m (2022: £4m). We continue to see opportunities to grow the platform further and grow revenue and profits over the medium-term.

ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE ('ESG')

We have excellent sustainability credentials, and we continue to make good progress. We are the top performing specialty retailer in Morningstar's Sustainalytics ESG Benchmark and were included, once again, in the Dow Jones World Sustainability Index. More recently, we have also been awarded an A rating in Carbon Disclosure Project's annual climate leadership survey and recognised for our work on supplier engagement.

We have set our target to achieve net zero and we are now engaging with our supply chain to work with us to reduce emissions across our value chain. Twenty of our suppliers, covering approximately a quarter of our supply chain emissions, have carbon reduction plans in place.

The need for literacy support for disadvantaged children is as important as ever and we continue to invest in our partnership with the National Literacy Trust.

We have made excellent progress in the period to further support our colleagues' journeys. We have increased the pay award to support with the cost of living pressures and for store colleagues we have also expedited their pay award.

Our Diversity, Equity and Inclusion activities continue to advance. We now have a Board led by a female Chair and, for the first time, more women than men on the Board. We also continue to improve gender representation at Senior Executive level. Our gender and LGBTQ+ networks have been strengthened, and during the period we launched a reciprocal mentoring scheme for Executive Team members with under-represented groups. We have also launched a mentoring scheme specifically targeting female talent within our organisation.

FINANCIAL REVIEW

The Group generated a Headline profit before tax and non-underlying items¹ of £45m (2022: £14m) and, after non-underlying items and IFRS 16, a Group profit before tax also of £45m (2022: £18m).

£m	IFRS		Headline pre-IFRS 16 ¹	
	6 months to Feb 2023	6 months to Feb 2022	6 months to Feb 2023	6 months to Feb 2022
Travel UK trading profit ¹	31	9	31	3
North America trading profit ¹	16	8	14	8
Rest of the World trading profit/(loss) ¹	2	(2)	2	(1)
Total Travel trading profit ¹	49	15	47	10
High Street trading profit ¹	32	35	24	26
Group profit from trading operations¹	81	50	71	36
Unallocated central costs ¹	(13)	(10)	(13)	(10)
Group operating profit before non-underlying items¹	68	40	58	26
Net finance costs	(21)	(16)	(13)	(12)
Group profit before tax and non-underlying items¹	47	24	45	14
Non-underlying items ¹	(2)	(6)	(2)	(3)
Group profit before tax	45	18	43	11

Unallocated central costs increased in the period due to higher share-based payment charges and further investment as the business recovers.

Non-underlying items¹

Items which are not considered part of the normal operating costs of the business, are non-recurring and are exceptional because of their size, nature or incidence, are treated as non-underlying items and disclosed separately.

Non-underlying costs in the period relate to the non-cash amortisation of acquired intangible assets associated with MRG and InMotion brands (£2m; 2022: £2m). Other prior year non-underlying items related to non-cash impairment charges of £1m on a pre-IFRS 16 basis, and £4m on an IFRS 16 basis.

The cash spend on non-underlying items in the first half of 2023 was £1m and mainly related to activity previously announced in 2020 and 2021.

Net finance costs

£m	IFRS		Headline pre-IFRS 16 ¹	
	6 months to Feb 2023	6 months to Feb 2022	6 months to Feb 2023	6 months to Feb 2022
Interest payable on bank loans and overdrafts	5	4	5	4
Interest on convertible bonds	7	7	7	7
Unwind of discount on onerous lease provisions (pre-IFRS 16)	-	-	1	1
Interest on lease liabilities	9	5	-	-
Net finance costs	21	16	13	12

Pre-IFRS 16 net finance costs for the half were £13m (2022: £12m). This includes cash costs of £7m.

The interest on the convertible bonds includes the accrued coupon (a fixed coupon of 1.625%) and c.£4m of the non-cash debt accretion charge.

Lease interest of £9m arises on lease liabilities recognised under IFRS 16, bringing the total net finance costs under IFRS 16 to £21m (2022: £16m).

Tax

The effective tax rate¹ was 23% on the profit for the half (2022: 22%). Corporation tax payments in the period were £10m (2022: £3m) after using all possible loss relief. Based on current legislation, we expect the effective tax rate in the full year to be around 23%.

Fixed charges cover¹

£m	pre-IFRS 16 ¹	
	6 months to Feb 2023	6 months to Feb 2022
Headline net finance costs ¹	13	12
Net operating lease rentals (pre-IFRS 16) (Note A12)	151	96
Total fixed charges	164	108
Headline profit before tax and non-underlying items ¹	45	14
Headline profit before tax, non-underlying items and fixed charges	209	122
Fixed charges cover - times	1.3x	1.1x

Fixed charges, comprising property operating lease charges and net finance costs, were covered 1.3 times (2022: 1.1 times) by Headline profit before tax, non-underlying items and fixed charges.

Cash flow

Free cash flow¹ reconciliation

£m	pre-IFRS 16 ¹	
	6 months to Feb 2023	6 months to Feb 2022
Headline Group operating profit before non-underlying items ¹	58	26
Depreciation, amortisation and impairment (pre-IFRS 16) ¹³	26	24
Non-cash items	6	5
Operating cash flow^{1, 13}	90	55
Capital expenditure	(60)	(38)
Working capital (pre-IFRS 16) ¹³	(79)	(36)
Net tax paid	(10)	(3)
Net finance costs paid (pre-IFRS 16)	(7)	(7)
Free cash flow¹	(66)	(29)

¹³ Excludes cash flow impact of non-underlying items

The free cash outflow¹ for the period was £66m (2022: £29m). Operating cash inflow increased by £35m to £90m reflecting the increased profitability of the business and demonstrating the cash generative nature of the Group.

We had a working capital outflow of £79m in the period (2022: £36m). Of this outflow, c.£40m results from the usual working capital cadence in the Group, where there has always been a large working capital outflow in the first half, due to the seasonality in the Travel business. The balance mainly relates to the investment in new stores and the recovering Travel business.

For the full year, we expect to generate a free cash inflow, reflecting the normal working capital cadence of the Group and the substantial level of operating cash flows generated by the Group during the second half.

Net corporation tax payments in the period were £10m (2022: £3m).

Capital expenditure in the half was £60m (2022: £38m) which includes the spend from opening 62 stores around the world. We anticipate the full year capex spend to be around £150m which includes the additional spend from opening a further c.50 stores in the second half.

£m	6 months to Feb 2023	6 months to Feb 2022
New stores and store development	34	20
Refurbished stores	5	4
Systems	12	6
Other	9	8
Total capital expenditure	60	38

Reconciliation of Headline net debt¹

Headline net debt¹ is presented on a pre-IFRS 16 basis. See Note 10 of the Financial statements for net debt on an IFRS 16 basis.

As at 28 February 2023, the Group had Headline net debt¹ of £378m comprising convertible bonds of £296m, term loans of £126m (net of fees), £2m of finance lease liabilities and net cash of £46m (31 August 2022: £296m, convertible bonds of £292m, term loans of £132m (net of fees), £4m of finance lease liabilities and net cash of £132m).

£m	Headline pre-IFRS 16 ¹		
	6 months to		Year ended
	Feb 2023	Feb 2022	Aug 2022
Opening Headline net debt ¹	(296)	(291)	(291)
<u>Movement in period</u>			
Free cash flow ¹	(66)	(29)	41
Pensions	-	(1)	(2)
Non-underlying items ¹	(1)	(8)	(16)
Net purchase of own shares for employee share schemes	-	(2)	(7)
Dividends paid	(12)	-	-
Non-cash movements relating to convertible bond	(4)	(4)	(9)
Other	1	(1)	(12)
Closing Headline net debt¹	(378)	(336)	(296)
Cash	46	88	132
Term loans (net of fees)	(126)	(132)	(132)
Convertible bond (net of fees)	(296)	(288)	(292)
Finance leases (pre-IFRS 16)	(2)	(4)	(4)
	(378)	(336)	(296)

In addition to the free cash outflow of £66m there were non-trading outflows of £16m of which the largest item was the 2022 final dividend of £12m.

We anticipate full year Headline net debt¹ to be in the region of £325m-£335m.

On an IFRS 16 basis, net debt was £978m, which includes an additional £600m of lease liabilities.

Balance sheet

£m	IFRS			Headline pre-IFRS 16 ¹		
	Feb 2023	Aug 2022	Feb 2022	Feb 2023	Aug 2022	Feb 2022
Goodwill and other intangible assets	527	543	483	528	544	484
Property, plant and equipment	245	219	189	237	211	182
Right-of-use assets	483	446	330	-	-	-
Investments in joint ventures	2	2	2	2	2	2
	1,257	1,210	1,004	767	757	668
Inventories	182	198	153	182	198	153
Payables less receivables	(180)	(269)	(195)	(187)	(284)	(216)
Working capital	2	(71)	(42)	(5)	(86)	(63)
Derivative financial asset	1	1	-	1	1	-
Net current and deferred tax asset	55	54	55	55	54	45
Provisions	(14)	(14)	(14)	(26)	(26)	(28)
Operating assets employed	1,301	1,180	1,003	792	700	622
Net debt	(978)	(869)	(793)	(378)	(296)	(336)
Net assets excluding pension liability	323	311	210	414	404	286
Pension liability	-	-	(2)	-	-	(2)
Total net assets	323	311	208	414	404	284

The Group had Headline net assets of £414m, £10m higher than at 31 August 2022 reflecting the investment in store openings and exchange differences on translation of goodwill. Under IFRS the Group had net assets of £323m.

TRADING UPDATE

The Group will issue its next trading update on 31 May 2023.

PRINCIPAL AND EMERGING RISKS AND UNCERTAINTIES

The Group's Annual Report and Accounts 2022, a copy of which is available on the Group's website at www.whsmithplc.co.uk, sets out the principal and emerging risks and uncertainties which could impact the Group for the remainder of the current financial year along with mitigating activities relevant to each risk (see Annual Report and Accounts 2022 pages 57 to 62). These include:

- economic, political, competitive and market risks;
- brand and reputation;
- key suppliers and supply chain management;
- store portfolio;
- business interruption (including pandemics);
- reliance on key personnel;
- international expansion;
- cyber risk and data security;
- treasury, financial and credit risk management; and
- environment and sustainability.

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 2023

£m	Note	6 months to 28 Feb 2023 (unaudited)			6 months to 28 Feb 2022 (unaudited)			12 months to 31 Aug 2022 (audited)		
		Before non- underlying items ¹	Non- underlying items ²	Total	Before non- underlying items ¹	Non- underlying items ²	Total	Before non- underlying items ¹	Non- underlying items ²	Total
Revenue	2	859	-	859	608	-	608	1,400	-	1,400
Group operating profit	2	68	(2)	66	40	(6)	34	117	(20)	97
Finance costs	5	(21)	-	(21)	(16)	-	(16)	(34)	-	(34)
Profit before tax		47	(2)	45	24	(6)	18	83	(20)	63
Income tax (expense) / credit	6	(11)	1	(10)	(5)	1	(4)	(14)	4	(10)
Profit for the period		36	(1)	35	19	(5)	14	69	(16)	53
Attributable to equity holders of the parent		33	(1)	32	17	(5)	12	63	(16)	47
Attributable to non-controlling interests		3	-	3	2	-	2	6	-	6
		36	(1)	35	19	(5)	14	69	(16)	53
Earnings per share										
Basic	8			24.6p			9.2p			36.2p
Diluted	8			24.1p			9.2p			35.6p

¹ Alternative Performance Measure. The Group has defined and explained the purpose of its alternative performance measures in the Glossary on page 37.

² See Note 3 for an analysis of Non-underlying items. See Glossary on page 37 for definition of alternative performance measures.

WH Smith PLC
Condensed Group Statement of Comprehensive Income
For the 6 months to 28 February 2023

£m	Note	6 months to 28 Feb 2023 (unaudited)	6 months to 28 Feb 2022 (unaudited)	12 months to 31 Aug 2022 (audited)
Profit for the period		35	14	53
Other comprehensive income / (loss):				
Items that will not be reclassified subsequently to the income statement:				
Actuarial gains / (losses) on defined benefit pension schemes		1	(1)	-
		1	(1)	-
Items that may be reclassified subsequently to the income statement:				
(Losses) / gains on cash flow hedges				
- Net fair value (losses) / gains		(2)	-	3
Exchange differences on translation of foreign operations		(16)	11	71
		(18)	11	74
Other comprehensive (loss) / income for the period, net of tax		(17)	10	74
Total comprehensive income for the period		18	24	127
Attributable to equity holders of the parent		15	22	120
Attributable to non-controlling interests		3	2	7
		18	24	127

WH Smith PLC
Condensed Group Balance Sheet
As at 28 February 2023

£m	Note	At	At	At
		28 Feb 2023 (unaudited)	28 Feb 2022 (unaudited)	31 Aug 2022 (audited)
Non-current assets				
Goodwill	9	456	416	471
Other intangible assets	9	71	67	72
Property, plant and equipment	9	245	189	219
Right-of-use assets	9	483	330	446
Investments in joint ventures		2	2	2
Deferred tax assets		50	54	55
Trade and other receivables		8	6	9
		1,315	1,064	1,274
Current assets				
Inventories		182	153	198
Trade and other receivables		90	48	87
Derivative financial assets		1	-	1
Current tax receivable		5	1	-
Cash and cash equivalents	10	46	88	132
		324	290	418
Total assets		1,639	1,354	1,692
Current liabilities				
Trade and other payables		(278)	(249)	(365)
Bank loans and other borrowings	10	(27)	-	(20)
Retirement benefit obligations	4	-	(1)	-
Lease liabilities	10	(138)	(105)	(131)
Current tax liability		-	-	(1)
Short-term provisions		-	(2)	-
		(443)	(357)	(517)
Non-current liabilities				
Retirement benefit obligations	4	-	(1)	-
Bank loans and other borrowings	10	(395)	(420)	(404)
Long-term provisions		(14)	(12)	(14)
Lease liabilities	10	(464)	(356)	(446)
		(873)	(789)	(864)
Total liabilities		(1,316)	(1,146)	(1,381)
Total net assets		323	208	311
Shareholders' equity				
Called up share capital	12	29	29	29
Share premium		316	316	316
Capital redemption reserve		13	13	13
Translation reserve		27	(16)	43
Other reserves		(246)	(242)	(244)
Retained earnings		165	97	138
Total equity attributable to equity holders of the parent		304	197	295
Non-controlling interests		19	11	16
Total equity		323	208	311

WH Smith PLC
Condensed Group Cash Flow Statement
For the 6 months to 28 February 2023

£m	Note	6 months to 28 Feb 2023 (unaudited)	28 Feb 2022 (unaudited)	12 months to 31 Aug 2022 (audited)
Operating activities				
Cash generated from operating activities	11	76	58	219
Interest paid ¹		(15)	(12)	(26)
Income taxes paid		(10)	(3)	(6)
Net cash inflow from operating activities		51	43	187
Investing activities				
Purchase of property, plant and equipment		(52)	(33)	(70)
Purchase of intangible assets		(8)	(5)	(13)
Net cash outflow from investing activities		(60)	(38)	(83)
Financing activities				
Distributions to non-controlling interests		-	(1)	(1)
Dividends paid	7	(12)	-	-
Purchase of own shares for employee share schemes		-	(2)	(7)
Repayment of borrowings	10	(6)	-	-
Capital repayments of obligations under leases	10	(58)	(44)	(96)
Net cash outflow from financing activities		(76)	(47)	(104)
Net decrease in cash and cash equivalents in the period		(85)	(42)	-
Opening cash and cash equivalents		132	130	130
Effect of movements in foreign exchange rates		(1)	-	2
Closing cash and cash equivalents		46	88	132

¹ Includes interest payments of £8m on lease liabilities (28 February 2022: £5m)

WH Smith PLC
Condensed Group Statement of Changes in Equity
For the 6 months to 28 February 2023

£m	Called up share capital and share premium	Capital redemption reserve	Translation reserves	Other reserves ¹	Retained earnings	Total equity attributable to equity holders of the parent	Non-controlling interest	Total equity
Balance at 1 September 2022	345	13	43	(244)	138	295	16	311
Profit for the period	-	-	-	-	32	32	3	35
Other comprehensive (loss) / income:								
Actuarial gains on defined benefit pension schemes	-	-	-	-	1	1	-	1
Cash flow hedges	-	-	-	(2)	-	(2)	-	(2)
Exchange differences on translation of foreign operations	-	-	(16)	-	-	(16)	-	(16)
Total comprehensive (loss) / income for the period	-	-	(16)	(2)	33	15	3	18
Recognition of share-based payments	-	-	-	-	5	5	-	5
Deferred tax on share-based payments	-	-	-	-	1	1	-	1
Dividend paid	-	-	-	-	(12)	(12)	-	(12)
Balance at 28 February 2023 (unaudited)	345	13	27	(246)	165	304	19	323
Balance at 1 September 2021	345	13	(27)	(240)	82	173	10	183
Profit for the period	-	-	-	-	12	12	2	14
Other comprehensive income / (loss):								
Actuarial losses on defined benefit pension schemes	-	-	-	-	(1)	(1)	-	(1)
Exchange differences on translation of foreign operations	-	-	11	-	-	11	-	11
Total comprehensive income for the period	-	-	11	-	11	22	2	24
Non-controlling interest distributions	-	-	-	-	-	-	(1)	(1)
Recognition of share-based payments	-	-	-	-	4	4	-	4
Employee share schemes	-	-	-	(2)	-	(2)	-	(2)
Balance at 28 February 2022 (unaudited)	345	13	(16)	(242)	97	197	11	208
Balance at 1 September 2021	345	13	(27)	(240)	82	173	10	183
Profit for the year	-	-	-	-	47	47	6	53
Other comprehensive income:								
Cash flow hedges	-	-	-	3	-	3	-	3
Exchange differences on translation of foreign operations	-	-	70	-	-	70	1	71
Total comprehensive income for the year	-	-	70	3	47	120	7	127
Employee share schemes	-	-	-	(7)	9	2	-	2
Non-controlling interest distributions	-	-	-	-	-	-	(1)	(1)
Balance at 31 August 2022 (audited)	345	13	43	(244)	138	295	16	311

¹ Other reserve includes Revaluation reserve of £2m (August 2022: £2m), ESOP reserve of £(8)m (August 2022: £(9)m), hedging reserve of £1m (August 2022: £3m), convertible bond reserve of £40m (August 2022: £40m) and Other reserves of £(281)m (August 2022: £(280)m). The 'Other' reserve includes reserves created in relation to the historical capital reorganisation and pro forma restatement of £(238)m (August 2022: £(238)m), the demerger from Smiths News PLC in 2006 of £69m (August 2022: £69m) and cumulative amounts relating to employee share schemes of £(112)m (August 2022: £(111)m).

WH Smith PLC
Notes to the Condensed Interim Financial Statements
For the 6 months to 28 February 2023

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

These Condensed Interim Financial Statements for the 6 months ended 28 February 2023 have been prepared in accordance with UK-adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

The interim financial statements do not include all of the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the Group's Annual Report and Accounts 2022, which has been prepared in accordance with UK-adopted international accounting standards and the requirements of the Companies Act 2006, and any public announcements made by WH Smith Plc during the interim reporting period.

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 2022 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 2022 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 2023, 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 IFRS 3	Business combinations
Amendment to IAS 16	Property, plant and equipment
Amendment to IAS 37	Provisions, contingent liabilities and contingent assets
Annual Improvements 2018-2020	Amendments to IFRS 1, IFRS 9 and IFRS 16

At the balance sheet date, the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective (and in some cases had not yet been endorsed by the UK):

IFRS 17	Insurance contracts
Amendment to IAS 12	Taxation
Amendment to IAS 8	Accounting policies, Changes in Accounting Estimates and Errors
Amendments to IAS 1	Presentation of financial statements
Amendments to IFRS 16	Leases
Narrow scope amendments to IFRS 3, IAS 16 and IAS 37	

The directors anticipate that the adoption of these standards and interpretations will have no material impact on the Group's financial statements.

Alternative performance measures (APM's)

The Group has identified certain measures that it believes will assist the understanding of the performance of the business. These APMs 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 APMs are not defined by IFRS and therefore may not be directly comparable with other companies' APMs.

The key APMs that the Group uses include: measures before non-underlying items, Headline profit before tax, Headline earnings per share, trading profit, Headline trading profit, Headline Group profit from trading operations, like-for-like revenue, gross margin, fixed charges cover, Headline EBITDA, Net debt/funds and Headline net debt/funds and free cash flow. These APMs are set out in the Glossary on page 37 including explanations of how they are calculated and how they are reconciled to a statutory measure where relevant.

WH Smith PLC

Notes to the Condensed Interim Financial Statements

For the 6 months to 28 February 2023

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

Non-underlying items

The Group has chosen to present a measure of profit and earnings per share which excludes certain items, that are considered non-underlying and exceptional due to their size, nature or incidence, and are not considered to be part of the normal operations of the Group. These measures exclude the financial effect of non-underlying items which are considered exceptional or occur infrequently such as, inter alia, restructuring costs linked to a Board agreed programme, costs relating to business combinations, impairment charges and other property costs, significant items relating to pension schemes, and impairment charges and items meeting the definition of non-underlying specifically related to the Covid-19 pandemic, and the related tax effect of these items. In addition, these measures exclude the income statement impact of amortisation of intangible assets acquired in business combinations, which are recognised separately from goodwill. This amortisation is not considered to be part of the underlying operating costs of the business and has no associated cash flows.

The Group believes that the separate disclosure of these items provides additional useful information to users of the financial statements to enable a better understanding of the Group's underlying financial performance.

Further details of the non-underlying items are provided in Note 3.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of condensed interim financial statements in conformity with generally accepted accounting principles requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates and any subsequent changes are accounted for with an effect on income at the time such updated information becomes available.

The most critical accounting judgements and sources of estimation uncertainty in determining the financial condition and results of the Group are those requiring the greatest degree of subjective or complex judgement. These relate to the classification of items as non-underlying, assessment of lease substitution rights, determination of the lease term, and other non-current assets and inventory valuation.

The key areas where the judgments, estimates and assumptions applied have a significant risk of causing a material adjustment to the carrying value of assets and liabilities are consistent with those applied in the Group's financial statements for the year ended 31 August 2022, as set out on pages 130 to 132 of those financial statements.

For details of changes to significant estimates for impairment of property, plant and equipment and right-of-use assets in the current period, refer to Note 9.

Going concern

The condensed interim financial statements have been prepared on a going concern basis.

In order to continue to adopt the going concern basis of accounting the directors are required to assess whether the Group can continue to operate for at least 12 months from the date of approval of these financial statements.

In making the going concern assessment, the directors have undertaken a rigorous assessment of current performance and forecasts for the 12 month period to April 2024, including expenditure commitments, capital expenditure and available borrowing facilities. The Group's borrowing facilities are described in the Group Overview on page 5. The covenants on these facilities are tested half-yearly and are based on fixed charges cover and net borrowings. The directors have also considered the existence of factors beyond the going concern period that could indicate that the going concern basis is not appropriate.

The directors have modelled a base case scenario consistent with the latest Board approved forecasts, which include management's best estimates of market conditions and include a number of assumptions including passenger numbers, sales growth and cost inflation. Under this scenario the Group has significant liquidity and complies with all covenant tests throughout the assessment period.

As a result of uncertainty and challenges in the macroeconomic environment, this base case scenario has been stress-tested by applying severe, but plausible, downside assumptions of a magnitude and profile in line with previous experience of economic downturns. These assumptions, include reductions to revenue assumptions of between 5 and 10 per cent versus the base case as appropriate by division; additional inflation in labour and energy costs beyond that included in the base case; and margin pressures. Apart from an equal reduction in turnover-based rents in our Travel businesses, this scenario does not assume a decrease in other variable costs, and is therefore considered severe. Under this downside scenario the Group would continue to have significant liquidity headroom on its existing facilities and complies with all covenant tests throughout the assessment period.

WH Smith PLC
Notes to the Condensed Interim Financial Statements
For the 6 months to 28 February 2023

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

Going concern (continued)

Based on the above analysis, the directors have concluded that the Group is able to adequately manage its financing and principal risks, and that the Group will be able to continue to meet its obligations as they fall due and operate within the level of its facilities for at least 12 months from the date of approval of these financial statements.

2. Segmental analysis of results

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

For management and financial reporting purposes, the Group is organised into two operating divisions which comprise four reportable segments – Travel UK, North America, Rest of the World within the Travel division, and High Street.

The information presented to the Board is prepared in accordance with the Group's IFRS accounting policies, with the exception of IFRS 16, and is shown below as Headline information in Section b). A reconciliation to statutory measures is provided below in accordance with IFRS 8, and in the Glossary on page 37 (Note A2).

a) Group revenue

£m	6 months to		12 months to
	28 Feb 2023 (unaudited)	28 Feb 2022 (unaudited)	31 Aug 2022 (audited)
Travel UK	314	189	521
North America	177	116	288
Rest of the World ¹	102	33	118
Total Travel	593	338	927
High Street	266	270	473
Group revenue	859	608	1,400

¹ Rest of the World revenue includes revenue from Australia of £40m (28 February 2022: £11m). No other country has individually material revenue.

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 2023

2. Segmental analysis of results (continued)

b) Group results

£m	6 months to 28 Feb 2023 (unaudited)				6 months to 28 Feb 2022 (unaudited)			
	Headline (pre-IFRS16) ¹	Headline non-underlying items (pre-IFRS 16) ¹	IFRS 16	Total	Headline (pre-IFRS16) ¹	Headline non-underlying items (pre-IFRS 16) ¹	IFRS 16	Total
Travel UK trading profit	31	-	-	31	3	-	6	9
North America trading profit	14	-	2	16	8	-	-	8
Rest of the World trading profit / (loss)	2	-	-	2	(1)	-	(1)	(2)
Total Travel trading profit	47	-	2	49	10	-	5	15
High Street trading profit	24	-	8	32	26	-	9	35
Group profit from trading operations	71	-	10	81	36	-	14	50
Unallocated central costs	(13)	-	-	(13)	(10)	-	-	(10)
Group operating profit before non-underlying items	58	-	10	68	26	-	14	40
Non-underlying items (Note 3)	-	(2)	-	(2)	-	(3)	(3)	(6)
Group operating profit	58	(2)	10	66	26	(3)	11	34
Finance costs	(13)	-	(8)	(21)	(12)	-	(4)	(16)
Group profit before tax	45	(2)	2	45	14	(3)	7	18
Income tax (expense) / credit	(11)	1	-	(10)	(3)	1	(2)	(4)
Profit for the period	34	(1)	2	35	11	(2)	5	14

¹ Presented on a pre-IFRS 16 basis. Alternative Performance Measures are defined and explained in the Glossary on page 37.

WH Smith PLC
Notes to the Condensed Interim Financial Statements
For the 6 months to 28 February 2023

2. Segmental analysis of results (continued)

c) Other segmental items

6 months to 28 Feb 2023					
£m	Non-current assets ¹			Right-of-use assets	
	Capital additions	Depreciation and amortisation	Impairment	Depreciation	Impairment
Travel UK	13	(7)	-	-	(1)
North America	22	(7)	-	-	-
Rest of the World	9	(3)	-	-	-
Total Travel	44	(17)	-	-	(1)
High Street	14	(7)	(1)	-	-
Unallocated	-	(1)	-	-	-
Headline, before non-underlying items	58	(25)	(1)	-	(1)
Headline non-underlying items (pre-IFRS 16)	-	(2)	-	-	-
Headline, after non-underlying items	58	(27)	(1)	-	(1)
Impact of IFRS 16	-	-	-	(52)	-
Group	58	(27)	(1)	(52)	(1)

6 months to 28 Feb 2022					
£m	Non-current assets ¹			Right-of-use assets	
	Capital additions	Depreciation and amortisation	Impairment	Depreciation	Impairment
Travel UK	17	(8)	-	-	-
North America	9	(5)	-	-	-
Rest of the World	2	(1)	-	-	-
Total Travel	28	(14)	-	-	-
High Street	11	(7)	(2)	-	-
Unallocated	-	(1)	-	-	-
Headline, before non-underlying items	39	(22)	(2)	-	-
Headline non-underlying items (pre-IFRS 16)	-	(2)	(1)	-	-
Headline, after non-underlying items	39	(24)	(3)	-	-
Impact of IFRS 16	-	-	-	(36)	-
Non-underlying items (IFRS 16)	-	-	-	-	(3)
Group	39	(24)	(3)	(36)	(3)

¹ Non-current assets including property, plant and equipment and intangible assets, but excluding right-of-use assets.

WH Smith PLC
Notes to the Condensed Interim Financial Statements
For the 6 months to 28 February 2023

3. Non-underlying items

Items which are not considered part of the normal operating costs of the business are non-recurring and are considered exceptional because of their size, nature or incidence, are treated as non-underlying items and disclosed separately. Further details of the non-underlying items are included in Note 1.

£m	6 months to		12 months to
	28 Feb 2023 (unaudited)	28 Feb 2022 (unaudited)	31 Aug 2022 (audited)
Amortisation of acquired intangible assets	2	2	3
Costs related to cyber incident	-	-	4
Store impairments			
- property, plant and equipment	-	1	5
- right-of-use assets	-	3	8
Non-underlying items, before tax	2	6	20
Tax credit on non-underlying items	(1)	(1)	(4)
Non-underlying items, after tax	1	5	16

Amortisation of acquired intangible assets

Amortisation of acquired intangible assets primarily relates to the MRG and InMotion brands in both the current and prior periods.

Prior period non-underlying items

Costs related to cyber incident

In the prior period, costs of £4m incurred due to a cyber security incident in relation to one of the Group's websites include impairment of software assets of £1m, third party consultancy support and legal and other costs.

Impairment of property, plant and equipment and right-of-use assets

In the prior period, the Group carried out a review for potential impairment across the entire store portfolio, as Covid-19 was considered to be an over-arching indicator of impairment. This review resulted in an impairment charge of £13m being recognised for the year ended 31 August 2022 and £4m for the 6 months ended 28 February 2022.

WH Smith PLC
Notes to the Condensed Interim Financial Statements
For the 6 months to 28 February 2023

4. Retirement benefit obligations

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

£m	At 28 Feb 2023 (unaudited)	At 28 Feb 2022 (unaudited)	At 31 Aug 2022 (audited)
Retirement benefit obligation	-	(2)	-
Recognised as:			
Current liabilities	-	(1)	-
Non-current liabilities	-	(1)	-

In August 2022 the WH Smith Pension Trust purchased a bulk annuity insurance policy from Standard Life, part of Phoenix Group, insuring all liabilities to pay all future defined benefit pensions to the Trust's 12,950 members and any eligible dependants.

As a result of this comprehensive risk-removal, WH Smith will not be required to make any future cash contributions into the WHSmith Trust regarding defined benefit liabilities, therefore the previously recognised minimum funding liability (£2m as at 28 February 2022) has been derecognised. The liability related to the recognition of the schedule of contributions as a liability in accordance with the requirements of IFRIC 14.

The Group does not have an unconditional right to derive economic benefit from any surplus, as the Trustees retain the right to enhance benefits under the Trust deed, and therefore the present value of the economic benefits of the IAS 19 surplus in the pension scheme of £119m (28 February 2022: £357m; 31 August 2022: £120m) available on a reduction of future contributions is £nil (2022: £nil). As a result, the Group has not recognised this IAS 19 surplus on the balance sheet.

5. Finance costs

£m	6 months to		12 months to
	28 Feb 2023 (unaudited)	28 Feb 2022 (unaudited)	31 Aug 2022 (audited)
Interest payable on bank loans and overdrafts	5	4	9
Interest on convertible bonds	7	7	14
Interest on lease liabilities	9	5	11
	21	16	34

Interest on convertible bonds includes £3m (28 February 2022: £3m) accrued coupon and £4m (28 February 2022: £4m) non-cash debt accretion charge.

WH Smith PLC
Notes to the Condensed Interim Financial Statements
For the 6 months to 28 February 2023

6. Income tax expense

£m	6 months to		12 months to
	28 Feb 2023 (unaudited)	28 Feb 2022 (unaudited)	31 Aug 2022 (audited)
Tax on profit	4	2	6
Adjustment in respect of prior periods	-	-	-
Total current tax expense	4	2	6
Deferred tax – current period	7	4	8
Deferred tax – prior period	-	(1)	-
Deferred tax – adjustment in respect of change in tax rates	-	-	-
Tax on Headline profit	11	5	14
Tax on non-underlying items – deferred tax	(1)	(1)	(4)
Total tax on (profit	10	4	10

The effective tax rate, before non-underlying items, was a charge of 23 per cent (28 February 2022: charge of 22 per cent).

The UK corporation tax rate is 19 per cent. From 1st April 2023 the corporation tax rate increased to 25 per cent.

During 2021, the OECD published a framework for the introduction of a global minimum effective tax rate of 15 per cent, applicable to large multinational groups. In July 2022, HM Treasury released draft legislation to implement these 'Pillar Two' rules which have not been substantively enacted at the balance sheet date. The Group is reviewing these draft rules, the IASB's initial amendments published in April 2023 and any additional updates to IAS 12, to understand any potential impacts.

7. Dividends

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

£m	6 months to		12 months to
	28 Feb 2023 (unaudited)	28 Feb 2022 (unaudited)	31 Aug 2022 (audited)
Dividends			
2022 Final dividend of 9.1p per ordinary share	12	-	-
	12	-	-

The directors have declared an interim dividend in respect of the period ending 28 February 2023 of 8.1p per ordinary share. This will be paid on 3 August 2023 to shareholders registered at the close of business on 14 July 2023.

WH Smith PLC
Notes to the Condensed Interim Financial Statements
For the 6 months to 28 February 2023

8. Earnings per share

a) Earnings

£m	6 months to		12 months to
	28 Feb 2023 (unaudited)	28 Feb 2022 (unaudited)	31 Aug 2022 (audited)
Profit for the period attributable to equity holders of the parent	32	12	47
Non-underlying items (Note 3)	1	5	16
Profit for the period before non-underlying items attributable to equity holders of the parent	33	17	63

b) Weighted average share capital

Millions	6 months to		12 months to
	28 Feb 2023 (unaudited)	28 Feb 2022 (unaudited)	31 Aug 2022 (audited)
Weighted average ordinary shares in issue	131	131	130
Less weighted average ordinary shares held in ESOP Trust	(1)	-	-
Weighted average ordinary shares for basic earnings per share	130	131	130
Add weighted average number of ordinary shares under option	3	-	2
Weighted average ordinary shares for diluted earnings per share	133	131	132

c) Basic and diluted earnings per share

Pence	6 months to		12 months to
	28 Feb 2023 (unaudited)	28 Feb 2022 (unaudited)	31 Aug 2022 (audited)
Basic earnings per share	24.6	9.2	36.2
Adjustments for non-underlying items	0.8	3.8	12.3
Basic earnings per share before non-underlying items	25.4	13.0	48.5
Diluted earnings per share	24.1	9.2	35.6
Adjustments for non-underlying items	0.7	3.8	12.1
Diluted earnings per share before non-underlying items	24.8	13.0	47.7

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.

At 28 February 2023 the convertible bond has no dilutive effect as the inclusion of these potentially dilutive shares would improve earnings per share (28 February 2022 and 31 August 2022: No dilutive effect).

The calculation of EPS on a pre-IFRS 16 basis is provided in the Glossary on page 37.

WH Smith PLC
Notes to the Condensed Interim Financial Statements
For the 6 months to 28 February 2023

9. Non-current assets

During the 6 months to 28 February 2023, there were additions to property, plant and equipment of £50m (28 February 2022: £34m). There were no material disposals of tangible assets during the period (28 February 2022: £nil). During the 6 months to 28 February 2023, there were additions right of use assets of £94m (28 February 2022: £39m) through signing of new leases and lease modifications.

Capital expenditure in respect of intangible assets totalled £8m (28 February 2022: £5m) in the period. There were no material disposals of intangible assets during the period (28 February 2022: £nil).

Goodwill decreased by £15m in the period, as a result of movements in exchange rates (28 February 2022: increase of £10m, as a result of movements in exchange rates).

Impairment of property, plant and equipment, right-of-use assets and intangible assets

For impairment testing purposes, the Group has determined that each store is a separate CGU. CGU's are tested for impairment at the balance sheet date if any indicators of impairment have been identified. The identified indicators include loss-making stores, stores earmarked for closure, and under-performance of individual stores versus forecast as a result of slower than expected recovery from Covid-19.

For those CGUs where an indicator of impairment has been identified, property, plant and equipment and right-of-use assets have been tested for impairment by comparing the carrying amount of the CGU with its recoverable amount determined from value-in-use calculations. It was determined that value-in-use was higher than fair value less costs to sell.

The value-in-use of each relevant CGU has been calculated using discounted cash flows derived from the Group's latest Board-approved forecast and three year plan, and reflects historic performance and knowledge of the current market, together with the Group's views on the future achievable growth for these specific stores. Cash flows beyond the forecast period are extrapolated using growth rates and inflation rates appropriate to each store's location. Cash flows have been included for the remaining lease life for the specific store. These growth rates do not exceed the long-term growth rate for the Group's retail businesses in the relevant territory. Where stores have a relatively short remaining lease life, an extension to the lease has been assumed where management consider it likely that an extension will be granted. The immediately quantifiable impacts of climate change and costs expected to be incurred in connection with our net zero commitments, are included within the Group's forecasts which have been used to support the impairment reviews, with no material impact on cash flows. The useful economic lives of store assets are short in the context of climate change scenario models therefore no medium to long-term effects have been considered. The discount rate applied to future cash flows was 13.9% (31 August 2022: 11.9%).

Where the value-in-use was less than the carrying value of the CGU, an impairment of property, plant and equipment and right-of-use assets was recorded. The Group has recognised an impairment charge of £1m to property, plant and equipment (28 February 2022: £3m) and £1m to right-of-use assets (28 February 2022: £3m) as a result of impairment testing. Impairments of £nil (28 February 2022: £4m) have been presented as non-underlying items in the current period (see Note 3), and impairments of £2m (28 February 2022: £2m) have been included in underlying results.

WH Smith PLC
Notes to the Condensed Interim Financial Statements
For the 6 months to 28 February 2023

10. Analysis of net debt

Movement in net debt can be analysed as follows:

£m	Term loans	Convertible bonds	Revolving credit facility	Leases	Sub-total Liabilities from financing activities	Cash and cash equivalents	Net debt
At 1 September 2022	(132)	(292)	-	(577)	(1,001)	132	(869)
Other non-cash movements	-	(4)	-	(90)	(94)	-	(94)
Other cash movements	6	-	-	58	64	(85)	(21)
Currency translation	-	-	-	7	7	(1)	6
At 28 February 2023	(126)	(296)	-	(602)	(1,024)	46	(978)

£m	Term loans	Convertible bonds	Revolving credit facility	Leases	Sub-total Liabilities from financing activities	Cash and cash equivalents	Net debt
At 1 September 2021	(132)	(283)	-	(470)	(885)	130	(755)
Other non-cash movements	-	(5)	-	(31)	(36)	-	(36)
Other cash movements	-	-	-	44	44	(42)	2
Currency translation	-	-	-	(4)	(4)	-	(4)
At 28 February 2022	(132)	(288)	-	(461)	(881)	88	(793)

An explanation of Alternative performance measures, including Net debt on a pre-IFRS 16 basis is provided in the Glossary on page 37.

WH Smith PLC
Notes to the Condensed Interim Financial Statements
For the 6 months to 28 February 2022

10. Analysis of net debt (continued)

Cash and cash equivalents

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 to their fair value.

Lease liabilities

Non-cash movements in lease liabilities mainly relate to new leases, modifications and remeasurements in the period.

Term loans and revolving credit facilities

The Group has in place a four-year committed multi-currency revolving credit facility of £250m with Santander UK PLC, BNP Paribas, HSBC UK Bank PLC, JP Morgan Securities PLC and Barclays Bank PLC. The revolving credit facility is due to mature on 28 April 2025. The utilisation is interest bearing at a margin over SONIA. As at 28 February 2023, the Group has drawn down £nil on this facility (2022: £nil).

The Group has a four-year committed £126m term loan with Banco Santander S.A., London Branch, Barclays Bank PLC, BNP Paribas and HSBC UK Bank PLC. This loan is interest bearing at a margin over SONIA and is due to mature on 28 April 2025. Instalments due within the next 12 months are recorded in current liabilities.

Transaction costs relating to the term loan are amortised to the Income statement through the effective interest rate method. Transaction costs of £1m relating to the RCF have been capitalised and are amortised to the Income statement on a straight-line basis.

Convertible bonds

The Group issued a £327m convertible bond on 7 May 2021 with a 1.625% per annum coupon payable semi-annually in arrears in equal instalments. The bonds are convertible into new and/or existing ordinary shares of WH Smith PLC. The initial conversion price was set at £24.99 representing a premium of 40% above the reference share price on 28 April 2021 (£17.85). If not previously converted, redeemed or purchased and cancelled, the Bonds will be redeemed at par on 7 May 2026.

The convertible bond is a compound financial instrument, consisting of a financial liability component and an equity component, representing the value of the conversion rights. The initial fair value of the liability portion of the convertible bond was determined using a market interest rate for an equivalent non-convertible bond at the issue date. The liability is subsequently recognised on an amortised cost basis using the effective interest rate method until extinguished on conversion or maturity of the bonds. The remainder of the proceeds were allocated to the conversion option and recognised in equity (Other reserves), and not subsequently remeasured. As a result, £41m of the initial proceeds of £327m was recognised in equity representing the option component.

Issue costs of £4m (2022: £5m) allocated to the debt component is being amortised through the effective interest rate method. Issue costs apportioned to the equity component of £1m were deducted from equity on the date of issue.

WH Smith PLC
Notes to the Condensed Interim Financial Statements
For the 6 months to 28 February 2023

11. Cash generated from operating activities

£m	6 months to		12 months to
	28 Feb 2023 (unaudited)	28 Feb 2022 (unaudited)	31 Aug 2022 (audited)
Group operating profit	66	34	97
Depreciation of property, plant and equipment	20	18	37
Impairment of property, plant and equipment	1	3	7
Amortisation of intangible assets	7	6	13
Impairment of intangible assets	-	-	1
Depreciation of right-of-use assets	52	36	81
Impairment of right-of-use assets	1	3	8
Non-cash change in lease liabilities	-	(5)	(5)
Share-based payments	5	4	9
Gain on remeasurement of leases	(4)	(2)	(4)
Other non-cash items (incl. foreign exchange)	2	-	(12)
Decrease / (increase) in inventories	15	(17)	(56)
Increase in receivables	(6)	(1)	(42)
(Decrease) / increase in payables	(83)	(20)	88
Pension funding	-	(1)	(2)
Movement on provisions	-	-	(1)
Cash generated from operating activities	76	58	219

12. Called Up Share Capital

	28 Feb 2023 (unaudited)		28 Feb 2022 (unaudited)		31 Aug 2022 (audited)	
	Number of shares (millions)	Nominal value £m	Number of shares (millions)	Nominal value £m	Number of shares (millions)	Nominal value £m
Equity						
Ordinary shares of 22 6/67p	131	29	131	29	131	29
Total	131	29	131	29	131	29

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.

WH Smith PLC
Notes to the Condensed Interim Financial Statements
For the 6 months to 28 February 2023

13. Contingent liabilities and capital commitments

£m	28 Feb 2023 (unaudited)	28 Feb 2022 (unaudited)	31 Aug 2022 (audited)
Bank guarantees and guarantees in respect of contractual arrangements	55	32	51

At 28 February 2023, contracts placed for future capital expenditure approved by the directors but not provided for amounted to £27m (28 February 2022: £22m).

14. Related Parties

Other than directors' remuneration, there have been no material related party transactions during the interim period under review.

WH Smith PLC
Notes to the Condensed Interim Financial Statements
For the 6 months to 28 February 2023

Statement of Directors' Responsibilities

The directors confirm that these condensed interim financial statements have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months 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
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

The Directors of WH Smith PLC are listed on the website at www.whsmithplc.co.uk/about-us/our-board.

By order of the Board

Carl Cowling
Group Chief Executive

Robert Moorhead
Chief Financial Officer and Chief Operating Officer

20 April 2023

INDEPENDENT REVIEW REPORT TO WH SMITH PLC

Report on the condensed consolidated Interim Financial Statements

Our conclusion

We have reviewed WH Smith PLC's condensed consolidated interim financial statements (the "interim financial statements") in the Interim Results Announcement of WH Smith PLC for the 6 month period ended 28 February 2023 (the "period").

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 UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

The interim financial statements comprise:

- the Condensed Group Balance Sheet as at 28 February 2023;
- 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 of WH Smith PLC have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Financial Reporting Council for use in the United Kingdom ("ISRE (UK) 2410"). 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.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed. This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the group to cease to continue as a going concern.

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 Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority. In preparing the Interim Results Announcement, including the interim financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT REVIEW REPORT TO WH SMITH PLC (continued)

Report on the condensed consolidated Interim Financial Statements (continued)

Responsibilities for the interim financial statements and the review (continued)

Our responsibilities and those of the directors (continued)

Our responsibility is to express a conclusion on the interim financial statements in the Interim Results Announcement based on our review. Our conclusion, including our Conclusions relating to going concern, is based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion paragraph of this report. 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.

PricewaterhouseCoopers LLP
Chartered Accountants
London
20 April 2023

WH Smith PLC

Glossary (unaudited)

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.

Non-underlying items

The Group has chosen to present a measure of profit and earnings per share which excludes certain items, that are considered non-underlying and exceptional due to their size, nature or incidence, and are not considered to be part of the normal operations of the Group. These measures exclude the financial effect of non-underlying items which are considered exceptional or occur infrequently such as, inter alia, restructuring costs linked to a Board agreed programme, costs relating to business combinations, impairment charges and other property costs, significant items relating to pension schemes, and impairment charges and items meeting the definition of non-underlying specifically related to the Covid-19 pandemic, and the related tax effect of these items. In addition, these measures exclude the income statement impact of amortisation of intangible assets acquired in business combinations, which are recognised separately from goodwill. This amortisation is not considered to be part of the underlying operating costs of the business and has no associated cash flows.

The Group believes that the separate disclosure of these items provides additional useful information to users of the financial statements to enable a better understanding of the Group’s underlying financial performance.

IFRS 16

The Group adopted IFRS 16 in the year ended 31 August 2020. IFRS 16 superseded the lease guidance under IAS 17 and the related interpretations. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model as the distinction between operating and finance leases is removed. The only exceptions are short-term and low-value leases. At the commencement date of a lease, a lessee will recognise a lease liability for the future lease payments and an asset (right-of-use asset) representing the right to use the underlying asset during the lease term. Lessees are required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Management have chosen to exclude the effects of IFRS 16 for the purposes of narrative commentary on the Group’s performance and financial position in the Strategic report. The effect of IFRS 16 on the Group income statement is to frontload total lease expenses, being higher at the beginning of a lease contract, and lower towards the end of a contract, and this is further influenced by timing of renewals and contract wins, and lengths of contracts. As a result of these complexities, IFRS 16 measures of profit and EBITDA (used as a proxy for cash generation) do not provide meaningful KPIs or measures for the purposes of assessing performance, concession quality or for trend analysis, therefore management continue to use pre-IFRS 16 measures internally.

The impact of the implementation of IFRS 16 on the Income statement and Segmental information is provided in Notes A1 and A2 below. There is no impact on cash flows, although the classification of cash flows has changed, with an increase in net cash flows from operating activities being offset by a decrease in net cash flows from financing activities, as set out in Note A9 below. The balance sheet as at 28 February 2023 both including and excluding the impact of IFRS 16 is shown in Note A10 below.

Leases policies applicable prior to 1 September 2019

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value determined at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. These assets are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease. Lease payments are apportioned between finance charges and a reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised directly in the income statement.

Rentals payable and receivable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term. The Group has a number of lease arrangements in which the rent payable is contingent on revenue. Contingent rentals payable, based on store revenues, are accrued in line with revenues generated.

WH Smith PLC
Glossary (unaudited)

Definitions and reconciliations

In line with the Guidelines on Alternative Performance Measures issued by the European Securities and Markets Authority ('ESMA'), we have provided additional information on the APMs used by the Group below, including full reconciliations back to the closest equivalent statutory measure.

APM	Closest equivalent IFRS measure	Reconciling items to IFRS measure	Definition and purpose
Income Statement Measures			
Headline measures	Various	See Notes A1-A12	Headline measures exclude the impact of IFRS 16 (applying the principles of IAS 17). Reconciliations of all Headline measures are provided in Notes A1 to A11.
Group profit before tax and non-underlying items	Group profit before tax	See Group income statement and Note A1	Group profit before tax and non-underlying items excludes the impact of non-underlying items as described below. A reconciliation from Group profit before tax and non-underlying items to Group profit before tax is provided on the Group income statement on page 15, and on a Headline (pre-IFRS 16) basis in Note A1.
Group profit from trading operations and segment trading profit	Group operating profit	See Note 2 and Note A2	Group profit from trading operations and segment trading profit are stated after directly attributable share-based payment and pension service charges and before non-underlying items, unallocated costs, finance costs and income tax expense. A reconciliation from the above measures to Group operating profit and Group profit before tax on an IFRS 16 basis is provided in Note 2 to the Condensed Interim Financial Statements and on a Headline (pre-IFRS 16) basis in Note A2.
Non-underlying items	None	Refer to definition and see Note 3 and Note A6	Items which are not considered part of the normal operating costs of the business, are non-recurring and considered exceptional because of their size, nature or incidence, are treated as non-underlying items and disclosed separately. The Group believes that the separate disclosure of these items provides additional useful information to users of the financial statements to enable a better understanding of the Group's underlying financial performance. An explanation of the nature of the items identified as non-underlying on an IFRS 16 basis is provided in Note 3 to the condensed interim financial statements, and on a Headline (pre-IFRS 16) basis in Note A6.
Earnings per share before non-underlying items	Earnings per share	Non-underlying items, see Note 8 and Note A4	Profit for the period attributable to the equity holders of the parent before non-underlying items divided by the weighted average number of ordinary shares in issue during the interim period. A reconciliation is provided on an IFRS 16 basis in Note 8 and on a Headline (pre-IFRS 16) basis in Note A4.
Headline EBITDA	Group operating profit	Refer to definition	Headline EBITDA is Headline Group operating profit before non-underlying items adjusted for pre-IFRS 16 depreciation, amortisation and impairment.
Effective tax rate	None	Non-underlying items see Notes A3 and A6	Total income tax charge / credit excluding the tax impact of non-underlying items divided by Group Headline profit before tax and non-underlying items. See Note 6 on an IFRS 16 basis, and Notes A3 and A6 on a pre-IFRS 16 basis.
Fixed charges cover	None	Refer to definition	This performance measure calculates the number of times Headline Profit before tax covers the total fixed charges included in calculating profit or loss. Fixed charges included in this measure are net finance charges (excluding finance charges from IFRS 16 leases) and net operating lease rentals stated on a pre-IFRS 16 basis. The calculation of this measure is outlined in Note A5.
Gross margin	Gross profit margin	Not applicable	Where referred to throughout the condensed Interim financial statements, gross margin is calculated as gross profit divided by revenue.

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APM	Closest equivalent IFRS measure	Reconciling items to IFRS measure	Definition and purpose
Income Statement Measures (continued)			
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. See A11.
Balance Sheet Measures			
Headline net debt	Net debt	Reconciliation of net debt	Headline 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 as defined on a pre-IFRS 16 basis. Lease liabilities recognised as a result of IFRS 16 are excluded from this measure. A reconciliation of Net debt on an IFRS 16 basis provided in Note A8.
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 the cash flow effect of IFRS 16, non-underlying items and pension funding, less net capital expenditure. The components of free cash flow are shown in Note A7 and on page 12, as part of the Group Overview.
Operating cash flow	Net cash inflow from operating activities	See Group Overview	Operating cash flow is defined as Headline profit before tax and non-underlying items, excluding Headline depreciation, amortisation, impairment and other non-cash items. The components of Operating cash flow are shown on page 12, as part of the Group Overview.

A1. Reconciliation of Headline to Statutory Group operating profit and Group profit before tax

6 months to 28 Feb 2023						
£m	pre-IFRS 16 basis			IFRS 16 Basis		
	Headline, before non-underlying items	Headline non-underlying items	Headline	IFRS 16 adjustments	Total	
Revenue	859	-	859	-	859	
Cost of sales	(341)	-	(341)	-	(341)	
Gross profit	518	-	518	-	518	
Distribution costs	(364)	-	(364)	7	(357)	
Administrative expenses	(96)	-	(96)	(1)	(97)	
Other income	-	-	-	4	4	
Non-underlying items	-	(2)	(2)	-	(2)	
Group operating profit	58	(2)	56	10	66	
Finance costs	(13)	-	(13)	(8)	(21)	
Profit before tax	45	(2)	43	2	45	
Income tax (charge) / credit	(11)	1	(10)	-	(10)	
Profit for the period	34	(1)	33	2	35	
Attributable to:						
Equity holders of the parent	31	(1)	30	2	32	
Non-controlling interests	3	-	3	-	3	
	34	(1)	33	2	35	

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A1. Reconciliation of Headline to Statutory Group operating profit and Group profit before tax (cont'd)

6 months to 28 Feb 2022					
£m	pre-IFRS 16 basis			IFRS 16 Basis	
	Headline, before non-underlying items	Headline non-underlying items	Headline	IFRS 16 adjustments	Total
Revenue	608	-	608	-	608
Cost of sales	(240)	-	(240)	-	(240)
Gross profit	368	-	368	-	368
Distribution costs	(264)	-	(264)	13	(251)
Administrative expenses	(78)	-	(78)	-	(78)
Other income	-	-	-	1	1
Non-underlying items	-	(3)	(3)	(3)	(6)
Group operating profit	26	(3)	23	11	34
Finance costs	(12)	-	(12)	(4)	(16)
Profit before tax	14	(3)	11	7	18
Income tax (expense) / credit	(3)	1	(2)	(2)	(4)
Profit for the period	11	(2)	9	5	14
Attributable to:					
Equity holders of the parent	9	(2)	7	5	12
Non-controlling interests	2	-	2	-	2
	11	(2)	9	5	14

A2. Reconciliation of Headline to Statutory Segmental trading profit and Profit for the period

£m	6 months to 28 Feb 2023					6 months to 28 Feb 2022				
	IAS 17 Basis			IFRS 16 Basis		IAS 17 Basis			IFRS 16 Basis	
	Headline	Non-underlying items	Total	IFRS 16 adjustments	Total	Headline	Non-underlying items	Total	IFRS 16 adjustments	Total
Travel UK trading profit	31	-	31	-	31	3	-	3	6	9
North America trading profit	14	-	14	2	16	8	-	8	-	8
Rest of the World trading profit / (loss)	2	-	2	-	2	(1)	-	(1)	(1)	(2)
Total Travel trading profit	47	-	47	2	49	10	-	10	5	15
High street trading profit	24	-	24	8	32	26	-	26	9	35
Group profit from trading operations	71	-	71	10	81	36	-	36	14	50
Unallocated costs	(13)	-	(13)	-	(13)	(10)	-	(10)	-	(10)
Headline Group operating profit	58	-	58	10	68	26	-	26	14	40
Non-underlying items	-	(2)	(2)	-	(2)	-	(3)	(3)	(3)	(6)
Group operating profit	58	(2)	56	10	66	26	(3)	23	11	34
Finance costs	(13)	-	(13)	(8)	(21)	(12)	-	(12)	(4)	(16)
Profit before tax	45	(2)	43	2	45	14	(3)	11	7	18
Income tax (expense) / credit	(11)	1	(10)	-	(10)	(3)	1	(2)	(2)	(4)
Profit for the period	34	(1)	33	2	35	11	(2)	9	5	14
Attributable to:										
Equity holders of the parent	31	(1)	30	2	32	9	(2)	7	5	12
Non-controlling interests	3	-	3	-	3	2	-	2	-	2
	34	(1)	33	2	35	11	(2)	9	5	14

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A3. Reconciliation of Headline to Statutory tax expense

£m	6 months to 28 Feb 2023			6 months to 28 Feb 2022		
	IAS 17	IFRS 16 adjustments	IFRS 16	IAS 17	IFRS 16 adjustments	IFRS 16
Profit before tax and non-underlying items	45	2	47	14	10	24
Tax on profit	4	-	4	1	1	2
Adjustment in respect of prior period UK corporation tax	-	-	-	-	-	-
Total current tax charge	4	-	4	1	1	2
Deferred tax – current period	7	-	7	3	1	4
Deferred tax – prior period	-	-	-	(1)	-	(1)
Tax on Headline profit	11	-	11	3	2	5
Tax on non-underlying items	(1)	-	(1)	(1)	-	(1)
Total tax on profit	10	-	10	2	2	4

A4. Calculation of Headline and Statutory earnings per share

millions	6 months to 28 Feb 2023		6 months to 28 Feb 2022	
	Basic EPS	Diluted EPS	Basic EPS	Diluted EPS
Weighted average shares in issue	130	133	131	131

	6 months to 28 Feb 2023			6 months to 28 Feb 2022		
	Profit for the period attributable to equity holders of the parent		Diluted EPS	Profit for the period attributable to equity holders of the parent		Diluted EPS
	£m	pence		£m	pence	
Headline (pre-IFRS-16 basis)						
- Before non-underlying items	31	23.8	23.3	9	6.9	6.9
- Non-underlying items	(1)	(0.7)	(0.7)	(2)	(1.6)	(1.6)
Total	30	23.1	22.6	7	5.3	5.3
IFRS 16 adjustments						
- Before non-underlying items	2	1.6	1.5	8	6.1	6.1
- Non-underlying items	-	(0.1)	-	(3)	(2.2)	(2.2)
Total	2	1.5	1.5	5	3.9	3.9
IFRS 16 basis						
- Before non-underlying items	33	25.4	24.8	17	13.0	13.0
- Non-underlying items	(1)	(0.8)	(0.7)	(5)	(3.8)	(3.8)
Total	32	24.6	24.1	12	9.2	9.2

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A5. Fixed charges cover

£m	6 months to 28 Feb 2023	6 months to 28 Feb 2022
Net finance costs (pre-IFRS 16)	13	12
Net operating lease rentals (pre-IFRS 16)	151	96
Total fixed charges	164	108
Headline profit before tax and non-underlying items	45	14
Headline profit before tax, non-underlying items and fixed charges	209	122
Fixed charges cover – times	1.3x	1.1x

A6. Non-underlying items on pre-IFRS 16 and IFRS 16 bases

£m	6 months to 28 Feb 2023		6 months to 28 Feb 2022	
	IAS 17	IFRS 16	IAS 17	IFRS 16
Amortisation of acquired intangible assets	2	2	2	2
Store impairments				
- Impairment of property, plant and equipment	-	-	1	1
- Impairment of right-of-use assets	-	-	-	3
Non-underlying items, before tax	2	2	3	6
Tax credit on non-underlying items	(1)	(1)	(1)	(1)
Non-underlying items, after tax	1	1	2	5

Non-underlying items on a pre-IFRS 16 basis are calculated on a consistent basis with IFRS 16, with the exception of the below items.

Prior period non-underlying items

A tax credit of £1m has been recognised in relation to the above items (£1m under IAS 17).

Impairment of property, plant and equipment and right-of-use assets

The impairment charge recognised on a pre-IFRS 16 basis differs from that recognised under IFRS 16. This is mainly due to a lower asset base pre-IFRS 16, coupled with lower expected store cash flows, with rental expenses being included in the forecast cash flows (treated as financing costs under IFRS 16), and a higher discount rate. The calculation of the Group's weighted average cost of capital differs under IFRS 16 versus pre-IFRS 16. The pre-tax discount rate used in the IFRS 16 calculation was 11.9 per cent and the pre-tax discount rate used in the pre-IFRS 16 calculation was 14.4 per cent.

Right-of-use assets are not recognised on a pre-IFRS 16 basis.

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A7. Free cash flow

£m	Note	6 months to 28 Feb 2023	6 months to 28 Feb 2022
Cash generated from operating activities	11	76	58
Interest paid		(15)	(12)
Income taxes paid		(10)	(3)
Net cash inflow from operating activities		51	43
Impact of IFRS 16 (Note A9)		(57)	(43)
Add back:			
- Cash impact of non-underlying items		1	8
- Pension funding		-	1
- Non-cash items		(1)	-
Deduct:			
- Purchase of property, plant and equipment		(52)	(33)
- Purchase of intangible assets		(8)	(5)
Free cash flow		(66)	(29)

A8. Headline Net debt

£m	Note	At 28 Feb 2023	At 28 Feb 2022
Borrowings			
- Revolving credit facility		-	-
- Convertible bonds		(296)	(288)
- Bank loans		(126)	(132)
- Lease liabilities		(602)	(461)
Liabilities from financing activities		(1,024)	(881)
Cash and cash equivalents		46	88
Net debt (IFRS 16)	10	(978)	(793)
- Add back lease liabilities recognised under IFRS 16 ¹		600	457
Net debt (IAS 17)		(378)	(336)

¹ Excludes lease liabilities previously recognised as finance leases on a pre-IFRS 16 basis.

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A9. Cash flow disclosure impact of IFRS 16

There is no impact on cash flows, although the classification of cash flows has changed, with an increase in net cash inflows from operating activities being offset by a decrease in net cash inflows from financing activities.

£m	6 months to 28 Feb 2023			6 months to 28 Feb 2022		
	Headline (pre-IFRS 16)	IFRS 16 Adjustment	IFRS 16	Headline (pre-IFRS 16)	IFRS 16 Adjustment	IFRS 16
Net cash (outflow) / inflow from operating activities	(6)	57	51	-	43	43
Net cash outflow from investing activities	(60)	-	(60)	(38)	-	(38)
Net cash outflow from financing activities	(19)	(57)	(76)	(4)	(43)	(47)
Net decrease in cash in the period	(85)	-	(85)	(42)	-	(42)

A10. Balance sheet impact of IFRS 16

The balance sheet as at 28 February 2023 including and excluding the impact of IFRS 16 is shown below:

£m	At 28 Feb 2023			At 28 Feb 2022		
	Headline (pre-IFRS 16)	IFRS 16 Adjustment	IFRS 16	Headline (pre- IFRS 16)	IFRS 16 Adjustment	IFRS 16
Goodwill and other intangible assets	528	(1)	527	484	(1)	483
Property, plant and equipment	237	8	245	182	7	189
Right-of-use assets	-	483	483	-	330	330
Investments in joint ventures	2	-	2	2	-	2
	767	490	1,257	668	336	1,004
Inventories	182	-	182	153	-	153
Payables less receivables	(187)	7	(180)	(216)	21	(195)
Working capital	(5)	7	2	(63)	21	(42)
Derivative financial asset	1	-	1	-	-	-
Net current and deferred tax asset	55	-	55	45	10	55
Provisions	(26)	12	(14)	(28)	14	(14)
Operating assets employed	792	509	1,301	622	381	1,003
Net debt	(378)	(600)	(978)	(336)	(457)	(793)
Net assets excluding pension liability	414	(91)	323	286	(76)	210
Pension liability	-	-	-	(2)	-	(2)
Deferred tax asset on pension liability	-	-	-	-	-	-
Total net assets	414	(91)	323	284	(76)	208

A11. Like-for-like revenue reconciliation

The reconciling items between like-for-like revenue change and total revenue change are shown below:

£m	Travel UK	North America	Rest of the World	Travel Total	High Street	Group
Like-for-like revenue change	52%	22%	122%	48%	-%	27%
Net space change impact	14%	11%	72%	18%	(1%)	9%
Foreign exchange	-%	20%	15%	9%	-%	5%
Total revenue change	66%	53%	209%	75%	(1%)	41%

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A12. Operating lease expense

Amounts recognised in Headline Group operating profit on a pre-IFRS 16 basis are as follows:

£m	6 months to 28 Feb 2023	6 months to 28 Feb 2022
Net operating lease charges	151	96

For the year ended 31 August 2020, the Group adopted IFRS 16. IFRS 16 requires lessees to account for all leases under a single on-balance sheet model as the distinction between operating and finance leases is removed. In order to provide comparable information, the Group has chosen to present Headline measures of operating profit and profit before tax, as explained in Note 2 Segmental analysis.

The table above presents the pre-IFRS 16 net operating lease charges, applying the principles of IAS 17, and Group accounting policies as applicable prior to 1 September 2019, as described in the Glossary on page 37.

The Group leases various properties under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The Group has a number of lease arrangements in which the rent payable is contingent on revenue. Contingent rentals payable, based on store revenues, are accrued in line with revenues generated.

The average remaining lease length across the Group is four years (February 2022: four years).

Rentals payable and receivable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Temporary rent reductions due to Covid-19, affecting rent payments due on or before June 2022, have been recognised in the Income statement in the period they are received.

A13. Analysis of retail stores and selling space

Number of High Street stores¹

	1 Sept 2022	Opened	Closed	28 Feb 2023
Total	527	-	(4)	523

¹ Excludes 100 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 2022	Opened	Closed	28 Feb 2023
Non franchise units	912	34	(18)	928
Joint Venture and Franchise units ²	284	28	(14)	298
Total	1,196	62	(32)	1,226

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 2022	Opened	Closed	28 Feb 2023
High Street	2,543	-	(11)	2,532
Travel	1,032	49	(14)	1,067
Total	3,575	49	(25)	3,599

Total Retail selling square feet does not include franchise units.