

Smiths News

Smiths News PLC Preliminary Results Announcement for the year ended 31 August 2007

Smiths News PLC is the UK's leading newspaper and magazine wholesaler serving
22,000 retailers across England and Wales

FINANCIAL HIGHLIGHTS

	2007	2006		2007	2006	
	Underlying ⁽¹⁾	Proforma ⁽²⁾	Increase			Increase
Revenue	£1,232.4m	£1,210.6m	1.8%	£1,232.4m	£1,210.6m	1.8%
Operating profit	£36.0m	£33.0m	9.1%	£41.4m	£34.3m	20.7%
Profit before tax	£31.0m	£28.0m	10.7%	£36.4m	£32.0m	13.8%
Earnings per share	14.0p	13.0p	7.7%	16.1p	14.9p	8.1%

- Free cash flow of £27.1m⁽³⁾
- Final dividend of 4.3p (2006: 4.0p)⁽⁴⁾; total dividend 6.4p (2006: 6.0p)⁽⁴⁾

OPERATING HIGHLIGHTS

- Market leading service with continued improvement across the network
- Costs reduced through efficiency improvements and tight cost control
- Significant progress in creating further efficiencies
 - depot consolidation in several locations
 - customer service and administration rationalisation into regional centres of excellence
- Agreement with News International to supply South London and Derby areas commencing June 2008
- Regional press gains in Peterborough, Plymouth, Cambridge and Manchester
- Continued progress in developing new revenue streams - agreements reached with Martin McColl, Alpha Retail and Newsread, part of Independent News & Media PLC

Commenting on the results, Mark Cashmore, Chief Executive said:

"In our first full year as an independent company, Smiths News has delivered a good performance. We have improved our profitability and cash generation in a challenging market by continuing to manage costs rigorously while further consolidating our position as the market leader in terms of scale, technology, efficiency and service to our customers.

We have made a good start to the new financial year. Looking ahead, a combination of improving service, new revenues, and continued efficiency savings throughout the business means we are well placed to deliver another year of progress."

The following definitions are applied consistently throughout this preliminary results announcement:

⁽¹⁾ Underlying 2007 results exclude the actuarial curtailment credit on the pension scheme of £5.4m and the related tax charge of £1.6m.

⁽²⁾ Proforma 2006 results assume the £70m of debt funding introduced at the time of the demerger, and the one-off pension payment of £25.0m, had been made at the beginning of the 2006 period, giving rise to a finance cost of £2.7m, with a related tax charge of £0.5m. Proforma 2006 results also exclude property profits of £1.3m.

⁽³⁾ Excludes the one-off pension funding payment of £25.0m, dividend payment of £10.9m and finance lease repayments of £1.6m.

⁽⁴⁾ 2006 dividend is the Smiths News apportionment of old WH Smith PLC dividend.

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About Smiths News:

Smiths News was formed on 31st August 2006 following the demerger of WH Smith PLC.

Smiths News is the UK's leading newspaper and magazine wholesaler serving 22,000 retailers across England and Wales. Smiths News also collects and processes returns, supplies sales information to publishers and provides a range of services for its retail customers.

Smiths News has an approximate 40 per cent share of the magazine wholesaling sector and an approximate 35 per cent share of the newspaper wholesaling sector in the UK.

Smiths News has 44 distribution centres across England and Wales, employing 4,100 staff.

OPERATING REVIEW

In our first year as an independent PLC, we have delivered a good performance. Even though our markets have remained challenging, rigorous cost management has enabled the business to increase its profits, whilst making good progress against all key objectives.

Service & Efficiency

Operational service levels have improved across the business, improving the consistency of standards throughout the network. The policy of ensuring transparency of performance at all levels of the business has been successful. Objectivity of reporting has improved communication with publishers and retailers, helping all parties to work together to improve mutual performance and consolidate our position as market leader.

This year a number of improvements were made to the network. In March, a new depot opened in Plymouth, replacing three old buildings with one modern facility. As part of the plan to improve service and efficiency in the Thames Valley area, the newspaper depot in Oxford was fully refurbished which enabled the closure of the High Wycombe depot. Similarly, the newspaper operation in Stoke has been consolidated into one building and the magazine packing moved to Wednesbury, completing the consolidation of depots in the North Birmingham area.

Efficiency initiatives have been pursued at all levels of the business, from major projects such as the restructuring of customer services and administration support, down to local initiatives such as the implementation of free fax facilities to reduce phone calls to depots.

Improvements to the network will continue and there are plans for further new facilities and consolidations.

Core contracts

There were no major publisher contracts due for renewal during the year, however regional press gains worth £8m in annualised sales were secured in the Peterborough, Plymouth, Cambridge and Manchester areas. We have also reached agreement with News International to supply the South London and Derby areas commencing in June 2008. This agreement represents an additional £10m in annualised sales.

The improvements in service levels and performance over the last two years position Smiths News well for major distribution contracts when they become due for renewal.

Markets

The newspaper and magazine markets remain large and relatively stable. Market conditions for newspapers have been challenging, but the long-term trend of value growth has continued with price increases more than offsetting the impact of volume declines. This trend is expected to continue although it is likely there will be only modest underlying revenue growth over the coming year.

The magazine market has seen a reduction in both volume and value. Sales through Smiths News were boosted by contract gains; although excluding these gains, the growth of weekly titles was not sufficient to offset the decline in monthlies and partworks. More recently we have seen increased investment in the weekly market and signs of stabilisation in monthly magazines.

New revenues

The business continues to seek opportunities to use its competencies to build new revenue streams. The Group's independence from WH Smith PLC has allowed the company to build stronger relationships with other retailers.

We continue to strengthen our services providing a comprehensive category management service by combining our distribution offer with information and marketing expertise, returns handling, merchandising, and promotional brokerage.

During the year solid progress has been made in this regard. We are due to run a trial with 100 Tesco stores to broaden our offer to other papershop products and an agreement has recently been reached with Martin McColl, the largest of the CTN convenience chains, to manage the magazine ranges and promotions in all of their 1,400 stores across the UK.

In addition, The Returns Company has recently reached an agreement with Alpha Retail, one of the UK's leading airport retailers, to handle their returns.

Smiths News is the industry leader in data management, operating a technology platform facilitating the complex information exchange between retailers, publishers and Smiths News. We market this under our NewsWorks banner. Newsread, a subsidiary of Independent News and Media PLC, has engaged NewsWorks to design a systems solution for their wholesale operation in Ireland.

Pensions

In May 2007, the WH Smith Pension Trust (a defined benefit scheme) was closed to further accrual. The closure affected 700 staff members, representing 17% of the total workforce. The decision limits the risk and volatility in the scheme and helps protect the long-term future of the Trust. We remain committed to competitive pension provision for all staff, through the WH Smith Retirement Savings Plan, a defined contribution scheme.

Outlook

We have made a good start to the new financial year with trading in the first six weeks in line with market expectations. Looking ahead, a combination of improving service, new revenues, and continued efficiency savings throughout the business means we are well placed to deliver another year of progress.

FINANCIAL REVIEW

REVENUE

	Aug 2007 £m	Aug 2006 £m	Change %	Like for like growth ⁽⁵⁾ %
Newspapers	640.8	628.7	1.9%	1.0%
Magazines	541.2	531.6	1.8%	(3.6%)
Other	50.4	50.3	0.2%	0.2%
Total revenue	1,232.4	1,210.6	1.8%	(1.1%)

⁽⁵⁾ Like for like revenue growth excludes publisher contract gains.

Total revenues are 1.8% above last year with like for like⁽⁵⁾ revenues down 1.1% on last year.

Newspaper revenues of £640.8m are up 1.9% on last year, benefiting from national newspaper contract gains in Derby and regional press contract gains in Peterborough, Plymouth, Cambridge and Manchester. Like for like⁽⁵⁾ newspaper revenues, excluding contract gains are up 1.0%.

This year has again seen the continuing trend experienced over the past decade of value growth in newspapers, with price increases outstripping volume declines.

Magazine revenues of £541.2m are up 1.8% on 2006 benefiting from additional business won from the distributor Frontline in April 2006 and contract gains in Derby in June 2006.

Excluding these contract gains like for like⁽⁵⁾ magazine revenues are down 3.6% on last year. Across our four categories of magazine revenues we have seen growth in weekly magazines and sticker collection revenues offset by declines in monthly magazines and partworks.

OPERATING PROFIT

	Aug 2007 £m	Aug 2006 £m	Fav/(Adv) %
Gross profit	125.2	129.1	(3.0%)
<i>Gross margin</i>	<i>10.2%</i>	<i>10.7%</i>	
Operating costs	(89.2)	(96.1)	7.2%
Underlying operating profit	36.0	33.0	9.1%
Non-recurring items	5.4	1.3	
Operating profit	41.4	34.3	20.7%

Gross margin has reduced from 10.7% to 10.2% owing to the effect of contract renewals finalised during the prior year.

Operating costs reduced by £6.9m compared to 2006, despite absorbing additional costs incurred as a result of becoming an independent plc. We have continued to drive our cost saving programme at pace knowing that we were facing tough gross margin pressures.

We have made significant savings from the consolidation of processes such as newspaper copy marketing and call centre operations, which were previously carried out in all depots but which now operate from regional centres of excellence.

Further savings were made through the consolidation of our depot network in areas such as Plymouth, High Wycombe and Stoke.

We have also made considerable savings in overtime and agency costs through better management of product flow.

The cost reductions have contributed to an improvement in underlying operating profit of 9.1% to £36.0m (2006: £33.0m).

Operating profit has improved by 20.7% to £41.4m (2006: £34.3m). Operating profit has further benefited from a non-recurring item, being an actuarial curtailment credit of £5.4m in 2007 relating to the closure of the defined benefit pension scheme. Operating profit in 2006 included a £1.3m one-off profit on the disposal of freehold properties.

PROFIT BEFORE AND AFTER TAX

	Underlying Aug 2007 £m	Proforma Aug 2006 £m	Increase %
Operating profit	36.0	33.0	9.1%
Finance Costs	(5.0)	(5.0)	
Profit before tax	31.0	28.0	10.7%
Tax	(6.1)	(5.6)	
Profit after tax	24.9	22.4	11.2%

Underlying profit before tax for 2007 was £31.0m, an increase of 10.7% on the 2006 proforma result.

Proforma results for 2006 exclude the profit on the sale of our Newcastle and Durham properties of £1.3m and includes additional finance costs of £2.7m to reflect comparable debt and pension positions post demerger.

The tax charge for the year of £6.1m represents an effective tax rate on underlying profit of 20%, resulting from the release of a prior year provision of £3.9m. This is due to the successful conclusion of some prior year matters with HMRC. Over time we would expect the effective tax rate to trend back to the standard rate of corporation tax for the UK.

EARNINGS PER SHARE AND DIVIDEND PER SHARE

	Underlying Aug 2007	Proforma Aug 2006	Aug 2007	Aug 2006
Profit after tax from continuing operations (£m)	24.9	22.4	28.7	25.6
Basic number of shares (millions)	177.8	172.2	177.8	172.2
Basic EPS	14.0p	13.0p	16.1p	14.9p
Dividend per share	6.4p	6.0p	6.4p	6.0p

The increase in EPS has been driven by improved underlying profits. The weighted average number of shares increased by 5.6m due to the early vesting of some share schemes and the allocation of share trust assets, both as a direct result of the demerger.

The Board has proposed a final dividend of 4.3p per ordinary share, which represents a 7.5% increase on the 4.0p allocation of the old WH Smith PLC dividend. The dividend will be paid on 8 February 2008 to shareholders registered at the close of business on 18 January 2008.

Total dividend per share for the year is 6.4p, an increase of 6.7% on last year.

FREE CASH FLOW

	Underlying Year to 31 Aug 2007 £m	Year to 31 Aug 2006 £m
Operating profit	36.0	34.3
Working capital	6.4	(8.1)
Depreciation & Amortisation	5.5	6.6
Non cash items	0.5	1.2
Capital expenditure	(3.2)	(2.1)
Tax	(8.1)	(4.4)
Net Interest paid	(3.8)	-
Additional pension deficit funding	(6.2)	(7.0)
Free cash flow	27.1	20.5

We have generated £27.1m of free cash flow in the year to 31 August 2007.

Tight working capital management, together with some timing benefits added £6.4m of cash.

Since investing £23m on our IT infrastructure in the period to 2001, the business has not required significant further investment. During this year, total capital expenditure of £5.4m, of which £3.2m was financed by cash and £2.2m by new finance leases, has matched depreciation of £5.5m.

There was a cash outflow in the year of £10.4m (2006: Inflow £3.6m) arising from a one-off payment into the pension fund of £25.0m, a dividend payment of £10.9m and repayment of finance lease obligations of £1.6m that offset the free cash flow of £27.1m.

NET DEBT

	Year to 31 Aug 2007 £m
Free cash flow	27.1
Dividend	(10.9)
New finance leases	(2.2)
Decrease in net debt before one-off pension payment	14.0
Opening net debt	(41.7)
One-off pension payment	(25.0)
Proforma opening net debt	(66.7)
Decrease in net debt before one-off pension payment	14.0
Closing net debt	(52.7)

Net debt of £52.7m has reduced by £14.0m compared to the proforma net debt at 31 August 2006. The £14.0m reduction arises from a positive free cash flow, offset by dividend payments and new finance leases.

The total movement in net debt of £11.0m comprises a £10.4m cash outflow and a net movement in finance leases of £0.6m.

PENSION

	Year to 31 Aug 2007 £m
Opening IAS 19 deficit	(49.0)
One-off contribution	25.0
Additional funding	5.4
Charge to income statement and other cash movement	(0.4)
Actuarial gains	23.5
Plan curtailment	5.4
Effect of IAS 19 asset cap	(9.9)
Closing IAS 19 balance	-

The Smiths News defined benefit pension deficit under IAS 19 of £49.0m at 31 August 2006 now stands at zero. There have been a number of significant movements during the year. On 1 September 2006, a one-off contribution of £25.0m was made to the Smiths News section of the Pension Trust and we have paid the first of five additional payments of £5.4m per annum as agreed with the Trustees.

Actuarial gains of £23.5m were achieved in the year, due to the out-performance of the equity call options and the widening spread between corporate bond yields and the swap yields underlying the

LDI assets. The scheme was closed to future service accrual in May 2007, resulting in an actuarial curtailment credit of £5.4m. It is uncertain whether the resultant surplus after these movements can ever be realised by the Company, therefore an asset cap of £9.9m has been applied to result in a zero funding position under IAS 19 at 31 August 2007.

Smiths News PLC
Group Income Statement for the year ended 31 August 2007

£m	Note	2007			2006		
		Underlying*	Non-recurring items**	Total	Underlying*	Non-recurring items**	Total
Continuing operations							
Revenue		1,232.4	-	1,232.4	1,210.6	-	1,210.6
Operating profit	2	36.0	5.4	41.4	33.0	1.3	34.3
Investment revenues	4	0.7	-	0.7	-	-	-
Finance costs	5	(5.7)	-	(5.7)	(2.3)	-	(2.3)
Profit before tax		31.0	5.4	36.4	30.7	1.3	32.0
Income tax expense	6	(6.1)	(1.6)	(7.7)	(6.4)	-	(6.4)
Profit after tax from continuing operations		24.9	3.8	28.7	24.3	1.3	25.6
Profit for the year from discontinued operations		-	-	-	32.1	-	32.1
Profit for the year		24.9	3.8	28.7	56.4	1.3	57.7

Earnings per share

From continuing operations

Basic	8	16.1p	14.9p
Diluted	8	15.8p	14.8p

From continuing and discontinued operations

Basic	8	16.1p	33.5p
Diluted	8	15.8p	33.3p

Non GAAP Measures

Equity dividends per share	7	6.4p	6.0p
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*Before non-recurring items described below.

**Non-recurring items include an actuarial curtailment credit on the pension scheme in 2007 and a profit on property disposals in 2006 as set out in note 2.

Smiths News PLC
Group Balance Sheet at 31 August 2007

£m	Note	2007	2006
Non-current assets			
Intangible assets		3.4	2.6
Property, plant and equipment		18.2	19.2
Deferred tax assets		6.0	15.6
Interest in associate		0.2	0.3
Derivative financial instruments		0.9	-
		28.7	37.7
Current assets			
Inventories		11.9	12.2
Available for sale investments		1.1	-
Trade and other receivables		53.0	70.0
Cash and cash equivalents		0.4	10.8
		66.4	93.0
Total assets		95.1	130.7
Current liabilities			
Trade and other payables		(108.0)	(118.5)
Current tax liabilities		(8.8)	(14.6)
Obligations under finance leases		(1.5)	(1.3)
Bank loans and other borrowings		(5.0)	-
		(123.3)	(134.4)
Non-current liabilities			
Bank loans and other borrowings		(44.6)	(49.6)
Retirement benefit obligation	3	-	(49.1)
Deferred tax liabilities		(1.6)	(1.7)
Long-term provisions		(0.5)	(0.7)
Obligations under finance leases		(2.0)	(1.6)
Other non-current liabilities		(0.5)	(0.9)
		(49.2)	(103.6)
Total liabilities		(172.5)	(238.0)
Total net liabilities		(77.4)	(107.3)
Equity			
Called up share capital		9.1	9.1
ESOP reserve		(3.7)	(7.1)
Other reserve		(280.1)	(280.1)
Hedging reserve		0.9	-
Retained earnings		196.4	170.8
Total equity		(77.4)	(107.3)

Smiths News PLC
Group Cash Flow Statement for the year ended 31 August 2007

£m	Note	2007	2006
Net cash inflow from operating activities	9	9.0	105.3
Investing activities			
Interest received		0.7	1.6
Loan repaid by associate		0.1	-
Proceeds on disposal of property, plant and equipment		-	10.5
Proceeds on settlement of loan notes		-	11.3
Non-operating disposal costs		-	(3.0)
Net cash in subsidiaries disposed		-	(66.4)
Purchase of property, plant and equipment		(1.4)	(26.4)
Purchase of intangible assets		(1.8)	(5.0)
Net cash used in investing activities		(2.4)	(77.4)
Financing activities			
Interest paid		(4.5)	(7.3)
Dividend paid		(10.9)	(25.0)
Repayments of obligations under finance leases		(1.6)	(5.6)
New bank loans raised (net of financing costs)		-	49.2
Repayments of borrowings		-	(76.6)
Derivative cash movements		-	(0.5)
Issue of shares to satisfy employee share schemes		-	5.8
Repurchase of equity component of "C" shares		-	(3.3)
Net cash used in financing activities		(17.0)	(63.3)
Net (decrease) / increase in cash and cash equivalents – continuing operations		(10.4)	3.6
Net increase in cash and cash equivalents – discontinued operations		-	27.4
Net cash in subsidiaries disposed – discontinued operations		-	(66.4)
Net decrease in cash and cash equivalents in year		(10.4)	(35.4)
Opening net cash and cash equivalents		10.8	46.2
Closing net cash and cash equivalents		0.4	10.8

Smiths News PLC**Group Statement of Recognised Income and Expense for the year ended 31 August 2007**

£m	Note	2007	2006
Exchange differences arising on translation of foreign operations		-	(2.2)
Gain / (loss) on cash flow hedges		0.9	(2.0)
Actuarial gains / (losses) on defined benefit pension scheme	3	23.5	(32.8)
Effect of asset limit on defined benefit pension scheme	3	(9.9)	-
UK deferred tax attributable to defined benefit pension scheme liabilities		(8.2)	7.3
UK current tax attributable to the additional defined benefit pension scheme contributions		3.9	4.0
Net income/(expense) recognised directly in equity		10.2	(25.7)
Profit for the year		28.7	57.7
Total recognised income and expense for the year		38.9	32.0

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

Smiths News PLC
Notes to the financial statements

1. Segmental analysis of results

Revenue and profit before tax are derived from the one principal activity of the group, being the wholesaling of newspapers and magazines. The group operates solely in the UK.

Revenue for the year to 31 August 2006 includes £115.9m of sales to WH Smith PLC. Prior to the demerger these were treated as inter-company revenue and therefore excluded from revenue in the published accounts for the year.

2. Operating profit

Non-recurring items included within operating profit from continuing operations amounted to £5.4m (2006: £1.3m). These are:

2007: Actuarial curtailment credit of £5.4m included within administrative expenses arising on the closure of the defined benefit pension scheme, see note 3. There is an associated deferred tax impact of £1.6m which has been separately disclosed.

2006: One-off property profits of £1.3m included within administrative expenses arising on the disposal of freehold properties.

£m	2007	2006
Revenue	1,232.4	1,210.6
Cost of sales	(1,107.2)	(1,081.5)
Gross profit	125.2	129.1
Distribution costs	(60.2)	(63.2)
Administrative expenses	(23.6)	(31.6)
Operating profit	41.4	34.3

The operating profit is stated after charging:

£m	2007	2006
Cost of inventories recognised as an expense	1,059.4	1,034.7
Depreciation and amounts written off property, plant & equipment	4.5	4.1
Amortisation of intangible assets	1.0	2.5
Net operating lease charges		
• land and buildings	5.2	5.2
• equipment and vehicles	2.5	2.9
Staff costs	73.1	76.5
Auditors' remuneration (see below)	0.5	2.2

Smiths News PLC
Notes to the financial statements

2. Operating profit (continued)

Fees payable in the continuing & discontinued operations to Deloitte & Touche LLP, the Group's auditors, included in the income statement related to:

Audit Fees	0.1	0.3
Non-audit fees	0.4	1.9
	0.5	2.2

Fees payable to Deloitte & Touche LLP, the Group's auditors, included in the income statement relating to audit fees amount to £0.1m (2006: £0.3m), consultancy services £0.4m (2006: £nil) and fees related to further assurance services associated with the demerger of WH Smith PLC £nil (2006: £1.9m).

3. Retirement benefit obligation

Pension arrangements for employees are operated through a defined benefit scheme WH Smith Pension Trust ("Pension Trust"), and a defined contribution scheme, WH Smith Retirement Savings Plan. The most significant is the Pension Trust which is described in note 3 (a). The scheme is independent of the Company and is administered by a Trustee. The Trustee of the Pension Trust has extensive powers over the pension plan's arrangements, including the ability to determine the levels of contribution.

On the date of demerger, 31 August 2006, the assets and liabilities of the Pension Trust and the WH Smith Retirement Savings Plan were split between Smiths News PLC and WH Smith PLC by way of a 'sectionalisation'. The Smiths News section only contains the accounts of members who are or were employed by Smiths News. There is no cross-subsidy or cross-guarantee between the sections of the Pension Trust.

The assets and liabilities of the Pension Trust were allocated to the Smiths News section in proportion so as to reflect the related liabilities of active, deferred, pensioner and orphan members belonging to Smiths News.

The amounts recognised in the balance sheet within non-current liabilities in relation to these plans are as follows:

£m	2007	2006
Present value of the obligation	(311.3)	(334.0)
Fair value of plan assets	321.2	285.0
Amounts not recognised due to asset limit	(9.9)	-
Deficit	-	(49.0)
Retirement medical benefit liability	-	(0.1)
Retirement benefit obligation recognised in the balance sheet	-	(49.1)

An amount of £9.9m has not been recognised in the balance sheet due to the effect of IAS 19 ("Employee Benefits") paragraph 58b, as it is uncertain whether this surplus can ever be realised by the Company.

Smiths News PLC

Notes to the financial statements

3. Retirement benefit obligation (continued)

(a) Defined benefit pension scheme

The Pension Trust

On 1 September 2006, a one-off contribution of £25.0m was made to the Pension Trust by the Group. In addition, the Group has paid £5.4m to the Pension Trust over the course of the year. As agreed with the Trustees, the Group will make four further payments of this amount over the next four years.

The Group announced its proposal to change the future benefit structure of the Pension Trust on 9 January 2007 and issued details of the new arrangements for consultation. Following a period of consultation the Trust closed to future service accrual from 1 May 2007. Accrued benefits will be linked to RPI growth each year (capped at 5 per cent). The closure to future accrual will not affect the pensions of those who have retired or the deferred benefits of those who have left service or opted out before 1 May 2007. This amendment to the scheme has created a £5.4m actuarial curtailment credit included within operating profit.

A full actuarial valuation of the Scheme is carried out every three years with interim reviews in the intervening years. The latest full actuarial valuation of the Pension Trust was carried out as at 31 March 2006 by independent actuaries, Mercer Human Resource Consulting, using the projected unit basis. On an ongoing basis, the actuarial gross defined benefit pension deficit at 31 March 2006 was approximately £63m (approximately £44m net of related deferred taxes) for the Smiths News PLC section of the Pension Trust. The ongoing deficit was greater than the IAS19 deficit primarily due to the different assumptions and calculation methodologies.

The Pension Trust Trustee has adopted a Liability Driven Investment 'LDI' policy in order to substantially reduce the volatility in the underlying investment performance and reduce the risk of a significant increase in the deficit in the fund. The assets are invested such that they are expected to alter in value in line with changes in the pension liability caused by changes in interest and inflation.

The key features of the investment policy are:

- 94% of the Pension Trust's assets were invested in an LDI policy with a leading international institutional fund manager; and
- 6% of the Pension Trust's assets were used to purchase a portfolio of long-dated equity call options. These represent a notional exposure to underlying equities of some £98m.

The valuation of the defined benefit pension scheme used for the account disclosures are based upon the most recent valuation. Scheme assets are stated at their market value at the relevant reporting date.

The principal long-term assumptions used to calculate scheme liabilities under IAS 19 are:

%	2007	2006
Rate of increase in salaries	4.22	4.00
Rate of increase in pension payments and deferred pensions	3.22	3.00
Discount rate	5.69	5.10
Inflation assumptions	3.22	3.00

Smiths News PLC
Notes to the financial statements

3. Retirement benefit obligation (continued)

(a) Defined benefit pension scheme (continued)

The amounts recognised in the income statement for continuing and discontinued operations were as follows:

£m	2007	2006
Current service cost	(2.1)	(9.5)
Interest cost	(16.9)	(46.9)
Expected return on scheme assets	15.7	42.4
Plan curtailment	5.4	-
	2.1	(14.0)

The charge for the current service costs and the actuarial curtailment credit has been included within administrative costs.

Movements in the present value of the defined benefit scheme obligation in the year were as follows:

£m	2007	2006
At 1 September	(334.0)	(967.6)
Current service cost	(2.1)	(9.5)
Interest cost	(16.9)	(46.9)
Actuarial gains / (losses)	21.9	(16.6)
Benefits paid	14.4	32.8
Plan curtailment	5.4	-
Subsidiaries disposed	-	673.8
As at 31 August	(311.3)	(334.0)

Movements in the fair value of defined benefit scheme assets in the year were as follows:

£m	2007	2006
At 1 September	285.0	871.5
Expected return on scheme assets	15.7	42.4
Net actuarial gains / (losses)	1.6	(16.2)
Contributions	33.3	28.4
Benefits paid	(14.4)	(32.8)
Subsidiaries disposed	-	(608.3)
As at 31 August	321.2	285.0

Smiths News PLC
Notes to the financial statements

3. Retirement benefit obligation (continued)

(a) Defined benefit pension scheme (continued)

An analysis of the defined benefit scheme assets at the balance sheet date is detailed below:

£m	2007	2006
Cash	315.8	274.9
Inflation swaps	(13.8)	(6.9)
Equity call options	19.2	17.0
	321.2	285.0

The actual return on plan assets was £17.3m (2006: £26.2m).

The expected rate of return on these investments, calculated as a weighted average of the expected return on the LDI fund and the equity call options, was 5.68 per cent at 31 August 2007 (5.01 per cent at 31 August 2006).

The mortality assumptions (in years) underlying the value of the accrued liabilities are:

	Male	Female
Life expectancy at age 65		
Member currently aged 65	20.1	22.9
Member currently aged 45	21.4	24.1
Life expectancy at age 60		
Member currently aged 60	24.9	27.7
Member currently aged 45	25.9	28.7

The mortality assumptions are based on the standard PA92 medium cohort tables (as published by the Institute of Actuaries). The mortality rates underlying the table have been increased by 25% to reflect the Trust's actual experience.

The history of experience adjustments is as follows:

£m	2007	2006	2005	2004	2003
Present value of defined benefit obligation	(311.3)	(334.0)	(967.6)	(883.0)	(846.0)
Fair value of scheme assets	321.2	285.0	871.5	678.0	631.0
Amounts not recognised due to asset limit	(9.9)	-	-	-	-
Deficit in the scheme	-	(49.0)	(96.1)	(205.0)	(215.0)
Experience adjustments on scheme liabilities					
Amount (£m)	21.9	(16.6)	(114.7)		
Percentage of scheme liabilities	7%	(5%)	(12%)		
Experience adjustments on scheme assets					
Amount (£m)	1.6	(16.2)	70.8		
Percentage of scheme assets	1%	(6%)	8%		

Smiths News PLC
Notes to the financial statements

3. Retirement benefit obligation (continued)

(b) Defined contribution pension scheme

The pension cost charged to income for the defined contribution scheme, WH Smith Retirement Savings Plan, amounted to £0.7m for the year ended 31 August 2007 (2006: £3.0m).

(c) Disposals

Year ended 31 August 2006

WH Smith PLC

On 31 August 2006, the assets and liabilities of the Pension Trust were divided into two different sections (the Smiths News PLC and the WH Smith PLC section). The gross deficit attributable to WH Smith PLC at the date of disposal was £65.5m.

On demerger, the post retirement medical benefits of £0.1m were transferred to WH Smith PLC.

The amount included in non-current liabilities for the WH Smith PLC portion of the defined benefit scheme is as follows:

£m	2007	2006
Present value of defined benefit obligation	-	(673.8)
Fair value of scheme assets	-	608.3
Deficit	-	(65.5)

Smiths News PLC
Notes to the financial statements

4. Investment revenues

£m	2007	2006
Interest on bank deposits	0.1	-
Interest received on prior year tax overpayment	0.6	-
	0.7	-

5. Finance costs

£m	2007	2006
Interest on bank overdrafts and loans	4.3	0.2
Interest payable on finance leases	0.2	0.3
Net charge on pension schemes (Note 3)	1.2	1.8
	5.7	2.3

Smiths News PLC
Notes to the financial statements

6. Income tax expense

£m	2007	2006
Current tax	10.6	10.5
Adjustment in respect of prior year UK corporation tax	(3.9)	(3.6)
Total current tax charge	6.7	6.9
Deferred tax – current year	(0.6)	(0.5)
Deferred tax - non-recurring items	1.6	-
Tax on profit on continuing activities	7.7	6.4
Discontinued operations	-	11.8
Total tax on profit	7.7	18.2
<i>Effective tax rate on continuing activities</i>	<i>21%</i>	<i>20%</i>

The effective tax rate of 21% benefits from the adjustment in respect of prior year UK corporation tax. Over time it is expected that the effective tax rate will trend back to the standard rate of UK corporation tax.

Reconciliation of the tax charge

£m	2007	2006
Profit before tax: continuing operations	36.4	32.0
Profit before tax: discontinued operations	-	43.9
Total	36.4	75.9
Tax on profit at the standard rate of UK corporation tax 30%	10.9	22.8
Differences in connection with discontinued operations	-	(1.4)
Permanent differences	0.7	0.4
Adjustment in respect of prior year UK corporation tax	(3.9)	(3.6)
Total tax charge	7.7	18.2

Smiths News PLC
Notes to the financial statements

7. Dividends

Amounts recognised as distributions to equity shareholders in the year are as follows:

£m	2007	2006
Final dividend for the year ended 31 August 2006 of 4.0p (2005: 9.2p) per share	7.1	15.8
Interim dividend for the year ended 31 August 2007 of 2.1p (2006: 5.1p) per share	3.8	8.8
	10.9	24.6
'B' share dividend paid on capital reorganisation	-	0.1
'C' share dividend paid on capital reorganisation	-	0.3
	10.9	25.0
Dividend in specie relating to the demerger of WH Smith PLC	-	168.0

On demerger, Smiths News PLC paid a dividend in specie of £168.0m representing the net assets demerged.

The proposed final dividend of 4.3p is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The proposed dividend will be paid on 8 February 2008 to shareholders on the register at close of business on 18 January 2008.

Smiths News PLC
Notes to the financial statements

8. Earnings per share

	2007		2006	
	Continuing	Continuing	Discontinued	Total
	£m	£m	£m	£m
Profit for the financial year	28.7	25.6	32.1	57.7
	Number m	Number m	Number m	Number m
Weighted average number of shares in issue	182.9	181.1	181.1	181.1
Shares held by ESOP (weighted)	(5.1)	(8.9)	(8.9)	(8.9)
Weighted average number of shares in issue for basic earnings per share	177.8	172.2	172.2	172.2
Shares issuable (weighted)	3.7	1.3	1.3	1.3
Weighted average number of shares in issue for diluted earnings per share	181.5	173.5	173.5	173.5
	Pence	Pence	Pence	Pence
Basic earnings per share	16.1	14.9	18.6	33.5
Diluted earnings per share	15.8	14.8	18.5	33.3

Smiths News PLC
Notes to the financial statements

9. Net cash inflow from operating activities

£m	2007	2006
Operating profit from continuing operations	41.4	34.3
Operating profit from discontinued operations	-	52.4
	41.4	86.7
Exceptional item ⁽⁶⁾	-	7.0
Adjustment for pension funding	(11.6)	(18.9)
Depreciation of property, plant and equipment	4.5	34.5
Loss / (profit) on sale of property, plant and equipment	0.1	(6.0)
Impairment of property, plant and equipment	-	2.6
Amortisation of intangible assets	1.0	6.8
Non cash items	0.5	8.5
Decrease in inventories	0.3	7.3
Decrease / (Increase) in receivables	17.0	(6.7)
(Decrease) / Increase in payables	(10.9)	1.3
Income taxes paid	(8.1)	(6.0)
Decrease in provisions	(0.2)	(3.3)
Net cash inflow from operating activities before exceptional items	34.0	113.8
One-off pension funding payment	(25.0)	-
Cash outflow relating to exceptional ⁽⁶⁾ item (PRMB settlement)	-	(2.1)
Cash outflow relating to exceptional ⁽⁶⁾ item (Demerger costs)	-	(6.4)
Net cash inflow from operating activities	9.0	105.3

⁽⁶⁾Exceptional items are material items of income or expense that are disclosed separately due to their nature or amount.

10. Preparation of the Preliminary Announcement

(a) Basis of preparation

The preliminary announcement for the 12 months to 31 August 2007 has been prepared on the basis of the accounting policies set out in the accounting policies section of the Smiths News PLC Annual Report and Accounts 2006.

(b) Preliminary announcement

The financial information for the 12 months to 31 August 2007 and the 12 months to 31 August 2006 does not comprise statutory accounts for the purpose of Section 240 of the Companies Act 1985 and has been extracted from the Company's consolidated accounts for the year to 31 August 2007. The statutory accounts for Smiths News PLC for the 12 months to 31 August 2006 have been filed with the Registrar of Companies and those for the 12 months to 31 August 2007 will be filed following the Company's annual general meeting. The auditors' reports on the accounts for the 12 months to 31 August 2007 were unqualified and did not include a statement under Section 237 (2) or (3) of the Companies Act 1985.

Whilst the financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of IFRSs, this announcement does not itself contain sufficient information to comply with IFRSs.

The Company intends to publish full financial statements that comply with IFRSs. The Annual Report and Accounts or Annual Review and Summary Financial Statement will be posted to shareholders in December 2007.

18 October 2007