

Smiths News

Smiths News PLC

Unaudited Interim Results Announcement for the six months ended 28 February 2007

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

FINANCIAL HIGHLIGHTS – CONTINUING OPERATIONS (Unaudited)

- Revenue of £615.0m, up 4.8% (2006: £586.7m)
- Underlying⁽¹⁾ operating profit of £17.6m, up 13.5% (2006: £15.5m)
- Profit before tax of £15.2m, up 14.3%⁽²⁾ (2006: proforma⁽²⁾ - £13.3m, statutory - £16.3m)
- Free cash flow of £9.7m⁽³⁾
- Earnings per share of 8.1p, up 12.5% (2006: 7.2p)
- Adjusted earnings per share of 6.9p⁽⁴⁾, up 16.9%⁽²⁾ (2006: proforma⁽²⁾ – 5.9p)
- Interim dividend of 2.1p (2006: 2.0p)⁽⁵⁾

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

“I am pleased to report the business has made good progress in this, the first half year in which we report as an independent company following the demerger. These solid results demonstrate the inherent strengths of the business and our strategy. Despite the challenging trading conditions, we have produced growth in underlying profitability and cash generation.

“We continue to manage the business on the basis of limited like for like⁽⁶⁾ revenue growth this year. As expected newspaper cover price inflation continues to offset circulation declines, however, the magazine market remains challenging. The rate of revenue growth in the second half of the year will be lower as we reach the annualisation of the contract gains in 2006.

“Our focus on service has increased customer satisfaction. Our ongoing efficiency programme and tight control of costs is helping to deliver consistent performance. Furthermore, we remain well placed to secure new business where opportunities arise. We expect current trading conditions to continue for the remainder of the year and the financial performance of the company to be in line with expectations.”

⁽¹⁾ Operating profit before property profits (2007: Nil, 2006: £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 £25m, had been made at the beginning of the 2006 period, giving rise to a finance cost of £1.4m. Proforma 2006 results also exclude property profits of £1.6m

⁽³⁾ Excludes the one off pension funding payment of £25m and dividend payment

⁽⁴⁾ Includes a tax adjustment to reflect the anticipated full year tax rate of 20%

⁽⁵⁾ 2006 dividend is the Smiths News apportionment of Old WH Smith dividend

⁽⁶⁾ Like for like revenue growth excludes publisher contract gains

These definitions are applied consistently throughout this Interim Results Announcement

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Smith News PLC

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A summary of Smiths News PLC's Unaudited Interim Results 2007 will be published in The Times newspaper on 27 April 2007. Smiths News PLC's Unaudited Interim Results 2007 are also available at www.smithsnews.co.uk and a copy of the Unaudited Interim Results 2007 will shortly be available for inspection at the UK Listing Authority, 25 North Colonnade, London, E14 5HS.

About Smiths News:

Smiths News was formed on 1st September 2006 following the demerger of WHSmith 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 4,200 staff.

OPERATIONAL REVIEW

Smiths News made good progress over the first half of the year with performance in line with expectations. Revenues and underlying profitability continued to grow, despite challenging markets. Revenues of £615m are up 4.8% on 2006 and underlying operating profit of £17.6m is up 13.5%. Cost savings have been slightly ahead of plan and service levels have improved significantly. The business remains highly focused on its core objectives and the benefits of operating as an independent PLC are beginning to come through.

Total revenues grew by 4.8%, driven mainly by contract gains. Like for like revenues were 0.3% ahead of last year. Newspapers have continued the established trend of price growth offsetting volume declines. The magazine market, however, has proved more challenging. Like for like revenues from monthlies and partworks declined but increased revenues from weeklies and one-shots were not sufficient to compensate.

The strategy of driving efficiency and improving service is on track. At the core of this is a programme of clearly targeted efficiency initiatives and we have identified further opportunities for improvement going forward. The consolidation of customer services into four regional call centres is now complete; we have made further savings at all levels of the distribution network and in central services; and the consolidation of the network is highlighting additional efficiencies. Our new depot in Plymouth opened on 2 April, replacing three separate buildings and providing state of the art facilities for the future.

The key performance indicators we introduced last year have continued to improve the consistency of service across the network; the business is recording its highest ever performance levels and this is also reflected in customer feedback and surveys. Our sales based replenishment system is now operational at all locations and we have plans to expand the range and scope of the service to encompass more retailers. To support this growth we will be investing further in our information systems and data warehouse capability, both integral components of our industry leading SAP enterprise system. These investments will improve service to retailers and publishers as well as helping to reduce costs and returns levels in the future; the investments will also underpin the competitive advantage of the business.

Last month the Office of Fair Trading issued a press release outlining the process it will follow to reach its conclusions on the status of contracts and the Newspaper Code of Practice. The press release confirmed our expectation that the process will be further delayed and we do not expect any further announcement before the summer. Meanwhile the business is firmly focused on our strategy based on improving service and efficiency. As the largest wholesaler with leading technology Smiths News is well placed to respond to any change in the market structure.

In summary, the business is meeting its objectives since demerger. By anticipating the market trends and taking strong action on cost control, it is delivering solid underlying profit growth despite challenging conditions.

FINANCIAL REVIEW

REVENUE

	Feb 2007 £m	Feb 2006 £m	Change %	Like for like growth %
Revenue				
Newspapers	318.1	307.7	3.4%	2.5%
Magazines	272.4	254.5	7.0%	(2.5%)
Other	24.5	24.5	0.0%	0.0%
Total revenue	615.0	586.7	4.8%	0.3%

Total revenues are 4.8% above last year with like for like revenues up 0.3% on last year.

Newspaper revenues of £318.1m are up 3.4% on last year and 2.5% if contract gains in Derby and Regional Press titles in Plymouth and Peterborough are excluded. The trend of newspaper cover price increases more than offsetting volume declines has continued. There was significant price activity from a number of newspaper publishers in the early months of our financial year, but we have seen volume declines in the first half of the year.

Magazine revenues of £272.4m are up 7.0% on 2006 driven by 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 magazine revenues are down 2.5% on last year. Across our four categories of magazine revenues we have seen declines in monthly magazines and partworks more than offsetting growth in weekly magazines and sticker collection revenues.

PROFITS

	Feb 2007 £m	Feb 2006 £m	Change %
Revenue	615.0	586.7	4.8%
Gross profit	63.1	63.2	(0.2%)
Operating costs	(45.5)	(47.7)	4.6%
Underlying operating profit	17.6	15.5	13.5%

Gross margin has reduced from 10.8% to 10.3% due to the cost of contract renewals finalised during the prior year. The impact of this on gross profit has been largely offset by the benefit of higher sales from contract gains achieved last year.

Operating costs reduced by £2.2m compared to 2006. We've continued to drive our cost saving programme knowing that we were facing tough gross margin pressures. In customer services, we have now completed the move to four regional customer service centres. In magazine packing we have rescheduled the flow of work, enabling the removal of whole shifts at some locations. We have also reviewed, and where appropriate reduced, distribution miles by re-profiling the number and configuration of delivery runs. There is still more to do and we have clear plans for further efficiencies that will be delivered over the remainder of the year and beyond.

The cost reductions have contributed to an improvement in underlying operating profit of 13.5% to £17.6m (2006: £15.5m).

PROFIT BEFORE AND AFTER TAX

	Feb 2007 £m	Proforma Feb 2006 £m	Change %	Statutory Feb 2006 £m	Change %
Underlying operating profit	17.6	15.5	13.5%	15.5	13.5%
Property profits	-	-		1.6	
Finance Costs	(2.4)	(2.2)		(0.8)	
Profit before tax	15.2	13.3	14.3%	16.3	(6.7%)
Taxation	(0.9)	(3.2)		(3.9)	
Profit after tax	14.3	10.1	41.6%	12.4	15.3%

Profit before tax for 2007 was £15.2m, an increase of 14.3% on the 2006 proforma result and 6.7% below the 2006 statutory result.

Proforma results for 2006 exclude the profit on the sale of our Newcastle and Durham properties and assume that the two large demerger related transactions, namely drawing down £70m of debt and making a one-off £25m pension funding payment, were transacted at the start of the 2006 financial year.

The income tax charge for the first half represents the UK Corporation tax rate of 30%, adjusted for a one off provision release of £4m that occurred in the period. This is due to the successful conclusion of some prior year matters with HMRC. This provision related to a former WHSmith Group company of which Smiths News was the parent company. We anticipate the full year effective tax rate will be around 20%.

EARNINGS PER SHARE AND DIVIDEND

	Feb 2007	Proforma Feb 2006	Statutory Feb 2006
Profit after tax from continuing operations (£m)	14.3	10.1	12.4
Adjusted taxation	(2.1)	-	-
Adjusted profit after tax	12.2	10.1	12.4
Basic number of shares (millions)	176.9	172.0	172.0
Basic EPS	8.1p	5.9p	7.2p
Adjusted EPS	6.9p	5.9p	7.2p

If our 2007 tax charge is adjusted to reflect our anticipated rate for the full year of 20% our adjusted profit after tax becomes £12.2m, giving an adjusted EPS of 6.9p, an increase of 16.9% on last year.

The increase in EPS has been driven by improved underlying profits, and benefits from a low tax charge. The weighted average number of shares increased by 4.9m due to the early vesting of some schemes and the allocation of share trust assets, both as a direct result of the demerger.

The Board has declared an interim dividend of 2.1p per ordinary share; this represents a 5% increase on the 2.0p allocation of the Old WH Smith dividend. The dividend will be paid on 15th June 2007 to shareholders registered at the close of business on 18th May 2007.

FREE CASH FLOW – from continuing operations

£m	6 months to 28 Feb 2007	12 months to 31 Aug 2006
Profit before interest and tax	17.6	34.3
Depreciation & Amortisation	2.7	6.6
Non cash items	0.5	1.2
Working capital	(0.5)	(8.1)
Capital expenditure	(1.2)	(2.1)
Tax	(4.7)	(4.4)
Net Interest paid	(1.6)	-
Ongoing pension deficit funding	(3.1)	(7.0)
Free cash flow	9.7	20.5

We have generated £9.7m of free cash flow in the 6 months to 28 February 2007. A feature of the period was the continued tight management of working capital and capital expenditure.

NET DEBT

Net debt has increased to £64.0m from £41.7m. The increase arises mainly from the one off contribution of £25.0m into the Smiths News section of the Pension Trust on 1 September 2006, offsetting the positive free cash flow in the period, and reducing the pension liability accordingly.

PENSION

On the date of demerger, 31 August 2006, the assets and liabilities of the Pension Trust and WH Smith Retirement Savings Plan were split between Smiths News and the WH Smith Retail Business by way of a 'sectionalisation'. Each section contains the accounts of members who are or were employed by the relevant business.

At 31 August 2006, the Smiths News gross defined benefit pension deficit under IAS 19 was £49.0m. On 1st September 2006, a one-off contribution of £25m was made to the Smiths News section of the Pension Trust. Additional payments of £5.4m per annum for the next five years have been agreed with the Trustees.

The pension deficit at 28th February 2007 was £20.5m. The scheme will close to future service accruals in May 2007.

Smiths News PLC

Group Income Statement (Unaudited)

For the 6 months ended 28 February 2007

£m	Note	6 months to		12 months to
		28 Feb 2007	28 Feb 2006	31 Aug 2006
Continuing operations				
Revenue	2	615.0	586.7	1,210.6
Operating profit		17.6	17.1	34.3
Analysed between:				
Before property disposals		17.6	15.5	33.0
Profit on property disposals		-	1.6	1.3
Finance costs		(2.4)	(0.8)	(2.3)
Profit before tax	2	15.2	16.3	32.0
Income tax expense	4	(0.9)	(3.9)	(6.4)
Profit after tax from continuing operations		14.3	12.4	25.6
Profit for the period from discontinued operations	10	-	49.7	32.1
Profit for the period		14.3	62.1	57.7
Earnings per share				
Basic – continuing operations	6	8.1p	7.2p	14.9p
Diluted - continuing operations	6	7.9p	7.1p	14.8p
Basic	6	8.1p	36.1p	33.5p
Diluted	6	7.9p	35.5p	33.3p

Neither an audit nor a review provides assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular whether any changes may have occurred to the financial information since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

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

Smiths News PLC
Group Balance Sheet (*Unaudited*)
As at 28 February 2007

£m	Note	At 28 Feb 2007	At 28 Feb 2006	At 31 Aug 2006
Non-current assets				
Goodwill		-	15.1	-
Other intangible assets		2.1	16.8	2.6
Property, plant and equipment		18.2	204.0	19.2
Deferred tax assets		9.9	31.3	15.6
Interests in associates		0.2	0.3	0.3
Derivative financial instruments		0.5	-	-
		30.9	267.5	37.7
Current assets				
Inventories		11.9	171.2	12.2
Available for sale investments		1.1	-	-
Trade and other receivables		59.8	140.6	70.0
Derivative financial instruments		-	0.8	-
Cash and cash equivalents	7	11.0	63.0	10.8
		83.8	375.6	93.0
Total assets		114.7	643.1	130.7
Current liabilities				
Trade and other payables		(107.8)	(317.3)	(118.5)
Current tax liabilities		(8.9)	(31.3)	(14.6)
Obligations under finance leases	7	(1.3)	(5.3)	(1.3)
Bank overdrafts and other borrowings	7	(22.9)	(50.0)	-
Short-term provisions		-	(7.0)	-
		(140.9)	(410.9)	(134.4)
Non-current liabilities				
Bank loans and other borrowings	7	(49.6)	(8.7)	(49.6)
Retirement benefit obligation	3	(20.6)	(87.3)	(49.1)
Deferred tax liabilities		(2.3)	(11.5)	(1.7)
Long-term provisions		(0.7)	(7.9)	(0.7)
Obligations under finance leases	7	(1.2)	(11.0)	(1.6)
Other non-current liabilities		(0.6)	(8.0)	(0.9)
		(75.0)	(134.4)	(103.6)
Total liabilities		(215.9)	(545.3)	(238.0)
Total net assets		(101.2)	97.8	(107.3)
Shareholders' equity				
Called up share capital	9	9.1	660.2	9.1
"C" share reserve	9	-	3.1	-
ESOP reserve	9	(3.7)	(34.0)	(7.1)
Revaluation reserve	9	-	3.1	-
Other reserve	9	(280.1)	(278.4)	(280.1)
Hedging Reserve	9	0.5	(0.2)	-
Retained earnings	9	173.0	(256.0)	170.8
Total equity		(101.2)	97.8	(107.3)

Smiths News PLC
Group Cash Flow Statement *(Unaudited)*
For the 6 months to 28 February 2007

£m	Note	6 months to		12 months to
		28 Feb 2007	28 Feb 2006	31 Aug 2006
Net cash (used in) / from operating activities	8	(12.5)	63.5	105.3
Investing activities				
Interest received		0.6	1.2	1.6
Loan repaid by associate		0.1	-	-
Proceeds on disposal of property, plant and equipment		-	8.3	10.5
Proceeds on settlement of loan notes		-	11.3	11.3
Non-operating disposal costs		-	(2.3)	(3.0)
Net cash in subsidiaries disposed		-	-	(66.4)
Purchase of property, plant and equipment		(1.2)	(12.2)	(26.4)
Purchase of intangible assets		-	-	(5.0)
Net cash (used in) / from investing activities		(0.5)	6.3	(77.4)
Financing activities				
Interest paid		(2.2)	(4.0)	(7.3)
Dividend paid		(7.1)	(16.0)	(25.0)
Repayments of obligations under finance leases		(0.4)	(3.3)	(5.6)
New bank loans raised (net of financing costs)		22.9	0.3	49.2
Repayments of borrowings		-	(30.0)	(76.6)
Derivative cash movement		-	(0.5)	(0.5)
Issue of shares to satisfy employee share schemes		-	0.5	5.8
Repurchase of equity component of "C" shares		-	-	(3.3)
Net cash from / (used in) financing activities		13.2	(53.0)	(63.3)
Net increase / (decrease) in cash and cash equivalents – continuing operations		0.2	(7.7)	3.6
Net increase in cash and cash equivalents – discontinued operations		-	24.5	27.4
Net cash in subsidiaries disposed – discontinued operations		-	-	(66.4)
Net increase / (decrease) in cash and cash equivalents in period		0.2	16.8	(35.4)
Opening net cash and cash equivalents		10.8	46.2	46.2
Closing net cash and cash equivalents		11.0	63.0	10.8
Reconciliation of net cash flow to movement in net debt				
Net debt at beginning of the period – as reported		(41.7)	(55.6)	(55.6)
IAS 39 – Deferred shares and 'C' shares classified as financial liabilities		-	(6.7)	(6.7)
Increase / (decrease) in cash and cash equivalents		0.2	16.8	(35.4)
(Increase) / decrease in debt		(22.9)	30.0	39.1
Net movement in finance leases		0.4	3.5	16.9
Net debt at end of the period	7	(64.0)	(12.0)	(41.7)

Smiths News PLC
Group Statement of Recognised Income and Expenses *(Unaudited)*
For the 6 months to 28 February 2007

£m	6 months to		12 months to
	28 Feb 2007	28 Feb 2006	31 Aug 2006
Exchange differences arising on translation of foreign operations	-	(1.1)	(2.2)
Gain/(Loss) on cash flow hedges	0.5	-	(2.0)
Actuarial gains / (losses) on defined benefit pension schemes	1.2	0.6	(32.8)
UK deferred tax attributable to pension scheme liabilities	(6.4)	1.4	7.3
UK current tax attributable to the additional pension scheme contributions	2.0	2.0	4.0
Net income recognised directly in equity	(2.7)	2.9	(25.7)
Profit for the period	14.3	62.1	57.7
Total recognised income and expense for the period	11.6	65.0	32.0

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

Smiths News PLC

Notes to the Unaudited Interim Financial Statements

For the 6 months to 28 February 2007

1 Basis of preparation

These Interim Financial Statements are unaudited and not reviewed. The Unaudited Interim Financial Statements for the six months ended 28 February 2007 have been prepared on a basis consistent with the accounting policies set out in Smiths News PLC's Annual Report for the year ended 31 August 2006. The Unaudited Interim Financial Statements should therefore be read in conjunction with the 2006 Annual Report, which is available on the company's website, www.smithsnews.co.uk.

The Unaudited Interim Financial Statements for the six months ended 28 February 2007, which were approved by the board of directors on 26 April 2007, do not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. The information relating to the year ended 31 August 2006 is an extract from the published Annual Report for that year, which has been delivered to the Registrar of Companies, and on which the Auditors' Report was unqualified and did not contain statements under section 237(2) or 237(3) of the UK Companies Act 1985.

The Unaudited Interim Financial Statements are prepared in accordance with International Accounting Standards, including International Accounting Standards and interpretations issued by the International Accounting Standards board and its committees, and as interpreted by any regulatory bodies applicable to the group as adopted for use in the European Union.

2 Segmental analysis of results

Turnover 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. The segmental results of discontinued operations are disclosed in note 10.

Revenue for the six months to 28 February 2006 includes £56.5m (12 months to 31 August 2006: £115.9m) of sales to WH Smith PLC. Prior to the demerger these were treated as inter-company sales and therefore excluded from revenue in the published accounts for these periods.

3 Retirement benefit obligation

The pension arrangements for employees are operated through the Smiths News PLC sections of the WH Smith PLC pension schemes. There is a defined benefit scheme, WHSmith Pension Trust ("Pension Trust"), and a defined contribution scheme, WHSmith Retirement Savings Plan. The Smiths News section of the Pension Trust will close to future service accruals in May 2007.

The market value of the assets and the present value of the liabilities in the defined benefit scheme were:

£m	At 28 Feb 2007	At 28 Feb 2006	At 31 Aug 2006
Present value of the obligations	(343.4)	(1,033.0)	(334.0)
Fair value of plan assets	322.9	946.0	285.0
Deficit in the pension scheme	(20.5)	(87.0)	(49.0)
Retirement medical benefit liabilities	(0.1)	(0.3)	(0.1)
Retirement benefit obligation recognised in the balance sheet	(20.6)	(87.3)	(49.1)
Deferred taxation	6.2	26.2	14.7
Net retirement obligation	(14.4)	(61.1)	(34.4)

Smiths News PLC

Notes to the Unaudited Interim Financial Statements

For the 6 months to 28 February 2007

3 Retirement benefit obligation - Continued

Movements in the present value of the defined benefit scheme obligations in the period were as follows:

£m	6 months to		12 months to
	28 Feb 2007	28 Feb 2006	31 Aug 2006
At beginning of period	(334.0)	(967.6)	(967.6)
Current service cost	(1.5)	(4.7)	(9.5)
Interest cost	(8.5)	(23.6)	(46.9)
Actuarial losses	(5.4)	(53.6)	(16.6)
Benefits paid	6.0	16.5	32.8
Subsidiaries disposed	-	-	673.8
At end of period	(343.4)	(1,033.0)	(334.0)

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

£m	6 months to		12 months to
	28 Feb 2007	28 Feb 2006	31 Aug 2006
At beginning of period	285.0	871.5	871.5
Expected return on scheme assets	7.7	21.7	42.4
Actuarial gains / (losses)	6.6	54.2	(16.2)
Contributions	29.6	15.1	28.4
Benefits paid	(6.0)	(16.5)	(32.8)
Subsidiaries disposed	-	-	(608.3)
At end of period	322.9	946.0	285.0

4 Income tax expense

The income tax rate for the six-month period is 6% (six months ended 28 February 2006: 24%; Year ended 31 August 2006: 20%). This represents the UK Corporation tax rate of 30%, adjusted for a one off provision release of £4m that occurred in this six-month period.

Smiths News PLC

Notes to the Unaudited Interim Financial Statements

For the 6 months to 28 February 2007

5 Dividends

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

	6 months to		12 months to
	28 Feb 2007	28 Feb 2006	31 Aug 2006
Dividend per share			
Interim - paid	-	-	5.1p
Final - paid	4.0p	9.2p	9.2p
	4.0p	9.2p	14.3p

£m

Dividends			
Interim – paid	-	-	8.8
Final - paid	7.1	15.8	15.8
	7.1	15.8	24.6

On 28 February 2006 the Group also paid a dividend of £140,600 (£142,088 on 31 August 2006) in respect of “C” shares and £40,563 (£40,992 on 31 August 2006) in respect of “B” shares.

In addition, the directors are recommending an interim dividend in respect of the period ending 28 February 2007 of 2.1p per ordinary share (2006: 2.0p – being the Smiths News apportionment of the WH Smith PLC dividend). This will be paid on 15 June 2007 to shareholders registered at the close of business on 18 May 2007.

Smiths News PLC

Notes to the Unaudited Interim Financial Statements

For the 6 months to 28 February 2007

6 Earnings per share

a) Earnings

	6 months to 28 Feb 2007		6 months to 28 Feb 2006		12 months to 31 Aug 2006
£m	Continuing	Continuing	Discontinued	Total	Total
Profit for the period attributable to shareholders	14.3	12.4	49.7	62.1	57.7

b) Basic earnings per share

	6 months to 28 Feb 2007		6 months to 28 Feb 2006		12 months to 31 Aug 2006
	Continuing	Continuing	Discontinued	Total	Total
Earnings per share	8.1p	7.2p	28.9p	36.1p	33.5p

c) Diluted earnings per share

	6 months to 28 Feb 2007		6 months to 28 Feb 2006		12 months to 31 Aug 2006
	Continuing	Continuing	Discontinued	Total	Total
Earnings per share	7.9p	7.1p	28.4p	35.5p	33.3p

d) Weighted average share capital

Millions	6 months to		12 months
	28 Feb 2007	28 Feb 2006	31 Aug 2006
Weighted average shares in issue for earnings per share	176.9	172.0	172.2
Add weighted average number of ordinary shares under option	3.4	3.1	1.3
Weighted average ordinary shares for fully diluted earnings per share	180.3	175.1	173.5

Smiths News PLC
Notes to the Unaudited Interim Financial Statements
For the 6 months to 28 February 2007
7 Analysis of net debt

£m	At 28 Feb 2007	At 28 Feb 2006	At 31 Aug 2006
Cash and cash equivalents	11.0	63.0	10.8
Bank Loans due within one year	(22.9)	(50.0)	-
Finance leases	(2.5)	(16.3)	(2.9)
Bank loans due after more than one year	(49.6)	(8.7)	(49.6)
Net debt	(64.0)	(12.0)	(41.7)

Movements in net debt can be further analysed as follows:

£m	At 28 Feb 2007	Cash flow	Non Cash Movement	At 31 Aug 2006
Cash and cash equivalents	11.0	0.2	-	10.8
Debt - Sterling floating rate	(35.0)	(22.9)	37.5	(49.6)
Debt - Sterling fixed rate	(37.5)	-	(37.5)	-
Obligations under finance leases	(2.5)	0.4	-	(2.9)
Net debt	(64.0)	(22.3)	-	(41.7)

At 28 February 2007 floating rate debt comprises a £12.1m unsecured term loan bearing an interest rate of six month LIBOR plus 75 basis points and a £22.9m unsecured revolving credit facility bearing an interest rate of LIBOR plus 75 basis points. Fixed rate debt comprises £37.5m of unsecured term loan bearing an interest rate of 5.13% plus 75 basis points.

8 Net cash inflow / (outflow) from operating activities

£m	6 months to 28 Feb 2007	28 Feb 2006	12 months to 31 Aug 2006
Operating profit from continuing operations	17.6	17.1	34.3
Operating profit from discontinued operations	-	65.1	52.4
	17.6	82.2	86.7
Operating exceptional items	-	(5.0)	7.0
Adjustment for pension funding	(3.1)	(10.4)	(18.9)
Depreciation of property, plant and equipment	2.2	17.8	34.5
Profit on sale of property, plant and equipment	-	(4.0)	(6.0)
Impairment of property, plant and equipment	-	1.6	2.6
Amortisation of intangible assets	0.5	3.2	6.8
Share based payments	0.5	3.6	8.5
(Increase) / decrease in inventories	0.3	(9.4)	7.3
(Increase) / decrease in receivables	10.2	(17.9)	(6.7)
Increase / (decrease) in payables	(11.0)	5.0	1.3
Income taxes paid	(4.7)	(0.1)	(6.0)
Cash spend against provisions	-	(1.0)	(3.3)
Net cash inflow from operating activities before exceptional and one off items	12.5	65.6	113.8
One off pension funding payment	(25.0)	-	-
Cash outflow relating to exceptional operating item (PRMB Settlement)	-	(2.1)	(2.1)
Cash outflow relating to exceptional operating item (De-merger costs)	-	-	(6.4)
Net cash (outflow) / inflow from operating activities	(12.5)	63.5	105.3

Smiths News PLC

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For the 6 months to 28 February 2007

9 Reconciliation of movements in equity

£m	Share Capital	'C' Shares	Other Reserve	Revaluatio n Reserve	ESOP Reserve	Translation & Hedging Reserve	Retained Earnings	Total
Balance at 1 September 2005	660.2	3.1	(278.4)	3.1	(34.0)	(0.2)	(309.0)	44.8
Total recognised income and expense for the period	-	-	-	-	-	-	65.0	65.0
Dividends paid	-	-	-	-	-	-	(16.0)	(16.0)
Recognition of share based payments	-	-	-	-	-	-	4.0	4.0
Balance at 28 February 2006	660.2	3.1	(278.4)	3.1	(34.0)	(0.2)	(256.0)	97.8
Total recognised income and expense for the period	-	-	-	-	-	(3.9)	(29.1)	(33.0)
Dividends paid	-	-	-	-	-	-	(9.0)	(9.0)
Employee share schemes	7.4	-	(1.7)	-	4.6	-	(4.5)	5.8
Recognition of share based payments	-	-	-	-	-	-	2.2	2.2
Repurchase of non equity share capital	-	(3.1)	-	-	-	-	-	(3.1)
Reduction in capital	(658.5)	-	-	-	-	-	658.5	-
Dividend in specie	-	-	-	(3.1)	22.3	4.1	(191.3)	(168.0)
Balance at 31 August 2006	9.1	-	(280.1)	-	(7.1)	-	170.8	(107.3)
Total recognised income and expense for the period	-	-	-	-	-	0.5	11.1	11.6
Dividends paid	-	-	-	-	-	-	(7.1)	(7.1)
Employee share schemes	-	-	-	-	2.6	-	(2.6)	-
Recognition of share based payments	-	-	-	-	-	-	0.5	0.5
Transfer to available for sale investments	-	-	-	-	0.8	-	0.3	1.1
Balance at 28 February 2007	9.1	-	(280.1)	-	(3.7)	0.5	173.0	(101.2)

Smiths News PLC

Notes to the Unaudited Interim Financial Statements

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10 Discontinued operations

Smiths News PLC completed the demerger of the Retail Business on 31 August 2006. The results of the Retail Business are classified in the financial statements as discontinued operations for the period ended 28 February 2006 and the year ended 31 August 2006.

(a) The revenue from discontinued operations was as follows:

£m	6 months to		12 months to
	28 Feb 2007	28 Feb 2006	31 Aug 2006
Revenue			
Retailing businesses			
High Street	-	620.8	1,021.0
Travel	-	150.6	318.8
Total revenue – discontinued operations	-	771.4	1,339.8

(b) The results from discontinued operations were as follows:

£m	6 months to		12 months to
	28 Feb 2007	28 Feb 2006	31 Aug 2006
Profit			
Profit before tax	-	59.8	43.9
Income tax expense	-	(10.1)	(11.8)
Profit for the year from discontinued operations	-	49.7	32.1

(c) The cash flows attributable to discontinued operations comprise:

£m	6 months to		12 months to
	28 Feb 2007	28 Feb 2006	31 Aug 2006
From operating activities	-	62.6	82.4
From / (used in) investing activities	-	5.4	(10.0)
Used in financing activities	-	(43.5)	(45.0)
Net increase in cash and cash equivalents	-	24.5	27.4

(d) Within the results from discontinued operations, certain exceptional charges were made as follows:

£m	6 months to		12 months to
	28 Feb 2007	28 Feb 2006	31 Aug 2006
Post retirement medical benefits settlement	-	5.0	5.0
Demerger costs	-	-	(12.5)
	-	5.0	(7.5)

Post retirement medical benefits settlement:

In September 2005, the members were offered the option to be bought out of this scheme, which was accepted by the majority of the members. The impact of the settlement was a £5 million reduction in the net deficit and has been disclosed as an exceptional item in discontinued operations. A small number of members opted to remain in the scheme and the present value of the remaining future liabilities is valued at £0.2 million net of deferred taxation.