

# Smiths News

## Interim Results

26 April 2007

Mark Cashmore  
Chief Executive

# Agenda

Highlights

Mark Cashmore

Financial performance

Alan Humphrey

Business update

Mark Cashmore



# Highlights

- Industry leading profit and cash performance
  - Underlying operating profits up by 13.5% to £17.6m
  - £9.7m free cash flow
- Good progress despite challenging market
  - Cost control – ahead of plan
  - Service delivery – best in industry
- Strategy remains on track

# Smiths News

## Financial Performance

Alan Humphrey  
Finance Director

# Financial Summary

	Feb 2007 £m	Proforma Feb 2006 £m	Change %
Revenue	615.0	586.7	4.8%
Underlying operating profit <sup>(1)</sup>	17.6	15.5	13.5%
Profit before tax	15.2	13.3	14.3%
EPS	8.1p	5.9p	37.3%
Dividend per share	<b>2.1p</b>	<b>2.0p<sup>(2)</sup></b>	<b>5.0%</b>

➤ February 2006 proforma results:

Exclude property profits of £1.6m

Include £1.4m of additional finance costs to reflect a comparable debt and pension position

<sup>1</sup> Operating profit before property profits

<sup>2</sup> Smiths News apportionment of Old WH Smith dividend

# Revenue

	Feb 2007 £m	Feb 2006 £m	Change %	Like for like revenue growth <sup>1</sup> %	Year to Aug 2006 £m
Newspapers	318.1	307.7	3.4%	2.5%	628.7
Magazines	272.4	254.5	7.0%	(2.5%)	531.6
Other	24.5	24.5	0.0%	0.0%	50.3
<b>Total revenue</b>	<b>615.0</b>	<b>586.7</b>	<b>4.8%</b>	<b>0.3%</b>	<b>1,210.6</b>

- Newspaper revenues include contract gains in Derby and regional press titles at Plymouth and Peterborough
- Continued value growth in newspapers with price increases outstripping volume declines
- Magazine revenues driven by additional Frontline business gained in April 2006
- Like for like declines in monthly magazines and partworks more than offsetting growth in weekly magazines and sticker collections

<sup>1</sup>Like for like revenue growth excludes publisher contract gains.

# Underlying Operating Profit

	Feb 2007 £m	Feb 2006 £m	Fav/(Adv) Change %	Year to Aug 2006 £m
Revenue	615.0	586.7	4.8%	1,210.6
Gross profit	63.1	63.2	(0.2%)	129.1
Net operating costs	(45.5)	(47.7)	4.6%	(96.1)
Underlying operating profit <sup>(1)</sup>	17.6	15.5	13.5%	33.0
<i>Net margin %</i>	2.9%	2.6%		2.7%

- Gross profit reduction due to full year impact of renewing publisher contracts during 2005 / 06
- Cost savings of £2.2m coming from all areas of the business

<sup>1</sup> Operating profit before property profits

# Profit Before and After Tax

	Feb 2007 £m	Proforma Feb 2006 £m	Change %	Statutory Feb 2006 £m	Change %
<b>Underlying operating profit <sup>(1)</sup></b>	<b>17.6</b>	<b>15.5</b>	<b>13.5%</b>	<b>15.5</b>	<b>13.5%</b>
Property profits	-	-		1.6	
Finance costs	(2.4)	(2.2)		(0.8)	
<b>Profit before tax</b>	<b>15.2</b>	<b>13.3</b>	<b>14.3%</b>	<b>16.3</b>	<b>(6.7%)</b>
Taxation	(0.9)	(3.2)		(3.9)	
<b>Profit after tax</b>	<b>14.3</b>	<b>10.1</b>	<b>41.6%</b>	<b>12.4</b>	<b>15.3%</b>

- Tax charge for the half year includes a £4m provision release relating to a prior year
- Anticipated full year effective tax rate of 20%
- February 2006 proforma results:

Exclude property profits of £1.6m

Include £1.4m of additional finance costs to reflect a comparable debt and pension position

<sup>1</sup> Operating profit before property profits

# Earnings per Share

	Feb 2007 (£m)	EPS Feb 2007	EPS Proforma Feb 2006
Profit after tax	14.3	8.1p	5.9p
Adjusted taxation	(2.1)	(1.2p)	-
Adjusted profit after tax	12.2	6.9p	5.9p
Weighted average number of shares (millions)		176.9	172.0

- Tax adjustment to reflect the anticipated tax charge for the full year of 20%
- Number of shares up by 4.9m due to early vesting and allocation of share trust assets, both as a direct result of the demerger
- Actual number of shares in issue at 28 February 2007 is 178.7m
- February 2006 proforma results:
  - Exclude property profits of £1.6m
  - Include £1.4m of additional finance costs to reflect a comparable debt and pension position

# Free Cash Flow

	Feb 2007 £m	Year to Aug 2006 £m
<b>Profit before interest and tax</b>	<b>17.6</b>	<b>34.3</b>
Depreciation and amortisation	2.7	6.6
Non cash items	0.5	1.2
Working capital	(0.5)	(8.1)
Capital expenditure	(1.2)	(2.1)
Net interest paid	(1.6)	-
Taxation	(4.7)	(4.4)
Ongoing pension funding	(3.1)	(7.0)
<b>Free cash flow</b>	<b>9.7</b>	<b>20.5</b>

- Strong free cash flow resulting from:
  - Low stockholding
  - Timing of supplier payments versus customer debt collection
  - Low capital expenditure
- Capital expenditure expected to match depreciation in 2007
- Ongoing pension funding of £5.4m per annum for the next 5 years agreed with Trustees

# Net Debt Movement

	6 mths to Feb 2007 £m	
<b>Opening net debt</b>	<b>(41.7)</b>	
One off pension payment	(25.0)	
<b>Proforma opening net debt</b>	<b>(66.7)</b>	
Free cash flow	9.7	
Dividend	(7.0)	➤ Final dividend payment for 2006 of 4p
<b>Closing net debt</b>	<b>(64.0)</b>	
Term loan	(49.6)	
Revolving credit facility	(22.9)	
Finance leases	(2.5)	
Cash	11.0	
	<b>(64.0)</b>	
	<b>(64.0)</b>	

➤ One off £25m payment into pension fund seen as part of demerger transactions

➤ Final dividend payment for 2006 of 4p

# Balance Sheet

	28 Feb 2007 £m
Fixed assets	21.0
Working capital	(35.6)
Taxation	(1.3)
Provisions	(0.7)
<b>Operating liabilities employed</b>	<b>(16.6)</b>
Net debt	(64.0)
<b>Total net liabilities (excluding pensions)</b>	<b>(80.6)</b>
Pension liability	(20.6)
<b>Total net liabilities</b>	<b>(101.2)</b>
Retained earnings	173.0
Other reserves	(274.2)
<b>Total equity</b>	<b>(101.2)</b>

- Pension liability reduced by £28.5m from £49.1m at 31 Aug 2006

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Business Update

Mark Cashmore

# Delivering the Benefits of Demerger

- Focused management
- Retailer relationships
- New business
- Continued investment



*Benefits being delivered*

# Markets and Revenues

## H1 September to February

- Challenging markets
- Newspaper price growth
- Weaker magazine sales

## H2 March to August Outlook

- Current trends to continue
- Annualisation of contract gains
- Impact from margin mix



*Current trends to continue*

# Cost Control

## Strong targeted cost control

- Customer services
- Magazine packing efficiencies
- Routing software
- Network
- Head office efficiencies



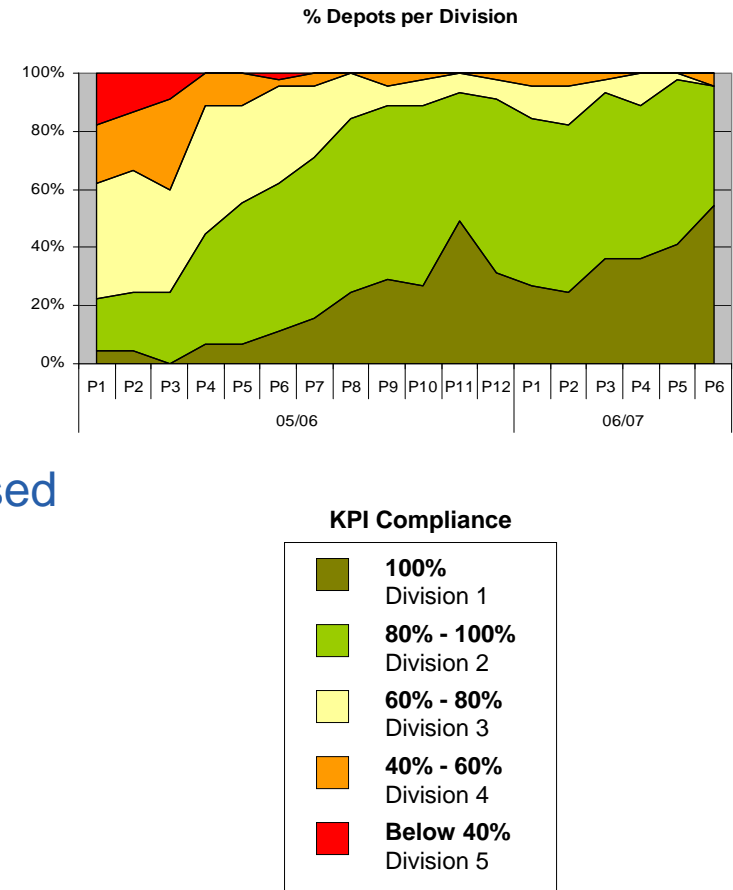
## On track to deliver planned savings

*Clearly targeted improvements*

# Service Delivery

## Good progress continues

- KPI performance improved
- Customer satisfaction improved
- Publisher satisfaction improved
- Measurement and monitoring increased
- Targeted investment and initiatives



*Competitive advantage and improved profitability*

# OFT Review

- OFT Opinion not expected before summer 2007
- Business energy focused on the future
- Well placed to respond to change



*Well placed with leading technology and service*

# Summary and Outlook

- Solid results demonstrate inherent strengths of business strategy.
- Continue to manage business on basis of limited like for like revenue growth this year.
- Well placed to secure new business where opportunities arise.
- Board expects current trading conditions to continue and financial performance of the Company to be in line with expectations.

*Strategy and performance on track*

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Questions