Smiths News PLC
Unaudited Interim Results for the six months ended 28 February 2009

Financial highlights:

- Revenue of £609.5m, down 1.4% (2008: £618.4m)
- Underlying[2] profit before tax of £15.3m, down 5.0% (2008: £16.1m)
- Underlying[2] earnings per share of 7.6p, down 3.8% (2008: 7.9p)
- Free cash flow [1] of £6.1m, up £1.9m
- Interim dividend unchanged at 2.2p

	6 months to Feb 2009 Underlying[2]	6 months to Feb 2008 Underlying[2]	Change Fav / (adv)	**6 months to Feb 2009 Statutory**	6 months to Feb 2008 Statutory	Change Fav / (adv)
Revenue	**£609.5m**	£618.4m	(1.4)%	**£609.5m**	£618.4m	(1.4)%
Profit before tax	**£15.3m**	£16.1m	(5.0)%	**£10.7m**	£16.1m	(33.5)%
Earnings per share	**7.6p**	7.9p	(3.8)%	**6.8p**	7.9p	(13.9)%
Interim dividend	**2.2p**	2.2p	-	**2.2p**	2.2p	-
Free cashflow [1]	**£6.1m**	£4.2m	45.2%	**£6.1m**	£4.2m	45.2%
Net Debt [3]	**£49.7m**	£57.1m	13.0%	**£49.7m**	£57.1m	13.0%

Operational highlights:

- Robust performance in very difficult market conditions
- Cost savings of £1.6m achieved
- Total contract gains of £322m per annum (including News International)
- Acquisition of Bertrams book wholesaling business for a consideration of £8.6m plus £7m working capital injection
- On-going review of The Returns Company – £3.1m impairment charge taken

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

"Against a backdrop of difficult market conditions Smiths News has performed robustly, taking swift action to control costs whilst maintaining business momentum.

"I am also pleased to report that we have made significant strategic progress in the year to date. We have secured growth for our news distribution business through major new contract gains which was largely due to our clear focus on delivering the highest standards of service and efficiency. In addition, the recent acquisition of Bertrams both broadens our revenue base and creates a number of exciting commercial opportunities.

"The current economic environment remains challenging and we continue to manage our business accordingly. Our new business pipeline looks strong, leaving us confident that trading for the full year will be in line with the Board's expectations and that the Group is well placed for future growth."

23 April 2009

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Smiths News PLC's unaudited interim results for the six months ended 28 February 2009 are available at www.smithsnews.co.uk.

About Smiths News PLC:

Smiths News PLC comprises Smiths News, the UK's leading wholesaler of newspapers and magazines and Bertrams, a leading UK book wholesaler. The Group was formed on 1 September 2006 following the demerger of WH Smith PLC.

Smiths News distributes newspapers and magazines on behalf of all the major national publishers as well as a large number of regional publishers. The business serves approximately 23,000 customers across England and Wales, supplying large general retailers as well as smaller independent newsagents. Smiths News has an approximate 40 per cent share of the magazine wholesaling sector and an approximate 36 per cent share of the newspaper wholesaling sector in the UK.

In addition to its distribution activities, Smiths News collects and processes returns, supplies sales information to publishers and provides a range of services for its retail customers.

Bertrams, which was acquired on 20 March 2009, supplies books to a mix of independent booksellers, on-line and multiple retailers, and libraries. Bertrams has approximate 45 per cent share of the wholesale book market.

Smiths News PLC operates from 46 distribution centres across England and Wales, and employs 4,600 staff.

The following definitions (and those detailed elsewhere in this document) have been applied consistently throughout this interim results announcement:

(1) Free cash flow is cash flow before the payment of the dividend, the investment in a joint venture, repayments of obligations under finance leases and non-recurring items.

(2) Underlying 2009 results exclude non-recurring items relating to a cross currency forward contract and re-organisation costs of The Returns Company.

(3) Net debt is calculated as total debt less cash and cash equivalents. Total debt includes loans and borrowings, overdrafts and obligations under finance leases.

INTERIM MANAGEMENT REPORT

To the members of Smiths News PLC

OPERATIONAL REVIEW

Introduction

We are pleased to report another solid performance in difficult trading conditions. As we indicated at the time of our preliminary results in October, the general economic climate was having an adverse impact on our markets. Against this challenging backdrop, Smiths News produced an underlying profit before tax of £15.3m (2008: £16.1m) from revenues of £609.5m (2008: £618.4m); this is in line with expectations and further demonstrates the resilience of our business.

Sales and Markets

Our newspaper revenues grew by 2.8%, with contract gains and cover price increases offsetting the impact of reduced volumes. As anticipated, our magazine revenues continued to decline with a weak performance in monthly titles and partworks. Overall, magazine sales were down by 8.0% period on period.

As widely publicised, the general deterioration in the UK economy continues to have an impact on consumer spending. We expect that both newspaper and magazine circulations will continue to decline but expect Smiths News will benefit from a combination of cover price increases and new business gains.

Service and Efficiency

Our core strategy continues to focus on continual improvement to service and efficiency. Investments made this year in South Wales and the ongoing re-organisation of our East Midlands depots will bring further benefits over time.

The Group achieved cost savings for the period of £1.6m, derived from a combination of network rationalisation, lower volumes and reduced staffing profiles. Given the current economic conditions, we continue to manage our cost base accordingly.

New Contract Gains

The combination of our leading service offer and continued investment in the business has resulted in the successful re-negotiation of five major contracts. This success follows the award of additional territories by News International announced in October 2008.

Publisher	**Estimated annual sales value**		**Effective date**
	Total £m	**Gain £m**	
News International *	220	85	July 2009
Frontline Group	203	58	April 2010
Seymour	85	26	April 2010
Associated Newspapers Ltd	212	65	November 2010
COMAG	138	35	January 2011
Telegraph Media Group	136	53	Autumn 2009
Total	**994**	**322**	

** previously announced October 2008*

In total, these contracts will result in annualised gains of £322m phased over the next two years.

INTERIM MANAGEMENT REPORT (continued)

Office of Fair Trading

On 23 October 2008 the OFT published its provisional findings in relation to the distribution arrangements for newspapers and magazines, concluding (for consultation) that it was not minded to refer the industry for further investigation by the Competition Commission.

Following an open consultation, on 20 April 2009 the Secretary of State for Business, Enterprise and Regulatory Reform confirmed that wholesalers will be released from undertakings to comply with the Newspaper Code of Practice.

The OFT is currently consulting on its recommendations and interested parties have until 19 May 2009 to respond. Smiths News will take a constructive approach to this process, but in the meantime there is no change to our strategy or direction.

Acquisition of Bertrams

On 20 March 2009 we announced the acquisition of Bertrams, a leading book wholesaler to independent, on-line and multiple retailers. Bertrams is also a leading distributor of books to libraries and acts as a primary distributor for small book publishers. The consideration for the business and assets was £8.6m and it is anticipated a further £7m working capital injection over the period to 31 August 2009 will be made.

Bertrams operates in markets that have similar characteristics to newspapers and magazines, and its customer proposition – built on service excellence and an efficient, time-sensitive, operation – is one we understand well. Bertrams has a strong and respected management team. We expect Bertrams to be cash generative and earnings enhancing in the first full financial year of ownership and believe that a combination of Smiths News and Bertrams will be well placed to develop the Group's leading position in its markets.

For the year ended 31 January 2009, Bertrams revenue was £139m[(5)] and EBITDA (Earnings Before Interest, Taxation, Depreciation and Amortisation) of £3.3m[(5)].

[(5)] The historic financial information relating to Bertrams (the trade and business of the Bertram Group was acquired on 20 March 2009) represents combined financial information from monthly management accounts for the year ended 31 January 2009.

The Returns Company

Since the loss of the WH Smith Retail contract last year, The Returns Company (a returns processing business) has not yet been able to secure the contracts required to achieve scale. We continue to explore opportunities to develop the business. However, following a detailed review of the future trading prospects of the business, an impairment charge of £3.1m has been recognised to write down the assets, provide for an onerous lease liability and other re-organisation costs.

Outlook

The first half of the financial year has been both a challenging and an exciting period for Smiths News. The business has performed robustly, responding swiftly to difficult market conditions.
The fundamentals of the business remain intact and in these challenging markets our focus on service and efficiency remains imperative to the performance of the Group. Recent contract awards and the acquisition of Bertrams create a platform for growth in clear alignment with our long-term strategy.

Current trading and the outlook for the year remains in line with the Board's expectations.

INTERIM MANAGEMENT REPORT (continued)

FINANCIAL REVIEW

REVENUE

	Feb 2009 £m	Feb 2008 £m	Change Fav/(Adv) %	Like-for-like[4] growth Fav/(Adv) %
Newspapers	335.6	326.6	2.8	(2.0)
Magazines	243.9	265.2	(8.0)	(8.0)
Other	30.0	26.6	12.8	12.8
Total revenue	**609.5**	**618.4**	**(1.4)**	**(4.0)**

[4] Like-for-like revenue growth excludes newspaper and magazine publisher contract gains during the year, and the annualised impact of gains made in the prior year.

Total Revenues of £609.5m are down 1.4% on last year, with volume declines across our product categories offsetting price increases and contract gains

Newspaper revenues of £335.6m have increased by 2.8% on last year, largely due to contract gains achieved across the past year. Two pieces of News International business in Hemel Hempstead and Bristol transferred to us in the Autumn 2008, earlier than planned, and will add £14m to sales this year.

Like-for-like newspaper revenues are down by 2.0%. This is due to an additional £6m promotional price discounting on titles such as the Sun, the Times and the Star in this half year. Excluding this, like-for-like revenues were flat with last year, with reductions in volumes being offset by price increases.

The magazine market continues to prove more challenging. Revenues of £243.9m were down 8.0%, driven primarily by lower sales of monthly magazines and partworks, although sales of sticker collections have been strong.

The increase in other revenues of 12.8% comes from growth in Newsworks and Instore revenues and from increased delivery service charges.

INTERIM MANAGEMENT REPORT (continued)

INCOME STATEMENT EXTRACTS – EXCLUDING NON-RECURRING ITEMS

	Feb 2009 £m	Feb 2008 £m	Change Fav/(Adv) %
Gross profit	58.6	61.7	(5.0)
Gross margin	*9.6%*	*10.0%*	
Operating costs	(42.2)	(43.8)	3.7
Underlying operating profit	**16.4**	**17.9**	**(8.4)**
Net finance costs	(1.1)	(1.8)	38.9
Underlying profit before tax	**15.3**	**16.1**	**(5.0)**
Taxation	(1.6)	(2.0)	20.0
Underlying profit after tax	**13.7**	**14.1**	**(2.8)**

All February 2009 numbers included in this table relate to the underlying trading results and therefore exclude the non-recurring items relating to the cross-currency forward contract and the re-organisation costs of The Returns Company.

The lower revenues and a weaker gross margin have resulted in gross profit of £58.6m being down 5.0% on last year. As expected, the change in sales mix between newspapers and magazines has had a dilutive impact, with gross margin declining from 10.0% last year to 9.6%.

In these challenging economic times, the Group remain fully focused on continuing to drive further cost efficiencies across the business. Underlying operating costs of £42.2m were £1.6m lower than last year, a good performance given the reduction in costs achieved in previous years. In the period, cost savings have more than offset inflationary pressures and additional costs associated with the servicing of new contracts.

Underlying net finance costs for the year were £1.1m, an improvement of £0.7m on last year due to the reduction in interest rates and tight cash management.

Underlying profit before tax of £15.3m is 5.0% down on last year (2008: £16.1m).

The underlying tax charge for the half-year of £1.6m represents an effective tax rate of 11% (2008: 12%) benefiting from the release of prior year provisions of £2.4m (2008: £3.4m). The effective tax rate for the half year would be 28% (2008: 29%) without the provision release.

We anticipate that the full year underlying effective tax rate for the 2009 financial year will continue to be lower than the standard rate, but over time we expect it to trend back to the standard rate of corporation tax for the UK.

Underlying profit after tax of £13.7m is 2.8% down on last year (2008: £14.1m).

INTERIM MANAGEMENT REPORT (continued)

NON-RECURRING ITEMS

	TRC Impairment £m	Cross-currency contract £m	Feb 2009 Total £m
One off costs	(3.1)	(0.2)	(3.3)
Finance costs – investment revenues	-	1.4	1.4
Finance costs – foreign exchange loss	-	(2.7)	(2.7)
Non-recurring loss before tax	**(3.1)**	**(1.5)**	**(4.6)**
Taxation	0.8	2.3	3.1
Non-recurring (loss)/profit after tax	**(2.3)**	**0.8**	**(1.5)**

Since the loss of the WH Smith Retail contract last year, The Returns Company (a returns processing business) has not yet been able to secure the contracts required to achieve scale. We continue to explore opportunities to develop the business. However, following a detailed review of the future trading prospects of the business, an impairment charge of £3.1m has been recognised to write down the assets, provide for an onerous lease liability and other re-organisation costs. This provision is partially offset by a related tax credit of £0.8m. The cash impact of this provision is expected to be incurred over a three-year period.

During the six months the Group invested in a cross-currency forward contract to lower the total cost of borrowing on an after tax cash basis. This contract, which matured on 25 February 2009, took advantage of a cross-currency interest rate differential, whilst fully hedging the potential foreign exchange exposure on an after tax basis. This resulted in a post tax benefit of £0.8m.

EARNINGS PER SHARE AND DIVIDEND

	Underlying		Statutory	
	Feb 2009	Feb 2008	Feb 2009	Feb 2008
Profit after tax (£m)	13.7	14.1	12.2	14.1
Basic number of shares (millions)	179.4	179.1	179.4	179.1
Basic EPS	**7.6p**	**7.9p**	**6.8p**	**7.9p**
Dividend per share	**2.2p**	**2.2p**	**2.2p**	**2.2p**

Underlying basic earnings per share have decreased from 7.9p to 7.6p, a reduction of 3.8%, whereas statutory earnings per share of 6.8p, which include non-recurring items, decreased from 7.9p in the previous year.

The Board has declared an interim dividend of 2.2p per ordinary share, which is unchanged from the prior year. The dividend will be paid on 12 June 2009 to shareholders registered at the close of business on 15 May 2009. The total cash cost of the dividend will be £4.0m.

INTERIM MANAGEMENT REPORT (continued)

FREE CASH FLOW

	Feb 2009 £m	Feb 2008 £m
Underlying operating profit	16.4	17.9
Depreciation & amortisation	2.9	3.0
Working capital	(4.7)	(8.0)
Capital expenditure	(1.0)	(1.3)
Tax	(2.9)	(2.6)
Net interest paid	(1.5)	(2.1)
Ongoing pension deficit funding	(2.9)	(3.0)
Other movements	(0.2)	0.3
Free cash flow [(1)]	**6.1**	**4.2**

Smiths News has generated free cash flow of £6.1m in the six months ended 28 February 2009, which is £1.9m more than last year. This improvement was largely due to a reduced working capital outflow and lower finance charges, offsetting a reduction in underlying profit.

The working capital outflow of £4.7m at the half year largely relates to timing differences of some customer payments around the period end, which are expected to unwind in the second half of the year.

Following the acquisition of Bertrams on 20 March 2009 it is anticipated that a further £7m injection of working capital will be required over the period to 31 August 2009 in order to increase stock availability and therefore customer service.

INTERIM MANAGEMENT REPORT (continued)

NET DEBT

	Feb 2009 £m	Feb 2008 £m	Aug 2008 £m
Opening net debt[3]	**(44.0)**	**(52.7)**	**(57.1)**
Free cash flow	6.1	4.2	17.2
Dividend paid	(8.1)	(7.7)	(4.0)
Consideration on the acquisition of Rascal	(1.0)	-	(2.1)
Proceeds on disposal of freehold properties	-	-	2.3
Cross-currency forward contract	(1.5)	-	-
New finance leases	(1.2)	(0.9)	(0.3)
(Increase)/decrease in net debt [3]	**(5.7)**	**(4.4)**	**13.1**
Closing net debt[3]	**(49.7)**	**(57.1)**	**(44.0)**

Net debt at 28 February 2009 stands at £49.7m, a reduction of £7.4m in the 12 months since 29 February 2008.

Net debt has increased by £5.7m in the six months since 31 August 2008 largely resulting from the payment of last year's final dividend of £8.1m.

The cash impact of the cross-currency forward contract was an outflow of £1.5m in the period. A cash inflow from the related tax credit of £2.3m will be realised over the next 12 months.

Following the acquisition of Bertrams on 20 March 2009 the Group increased its banking facilities by a further £20m, by entering into an asset backed facility secured over the Bertrams debtor book. As a result the Group currently has total bank facilities in place of £115m. In both June 2009 and June 2010, £5m of these facilities are repayable, with the remaining facilities expiring in June 2011. At 28 February 2009, £51.6m of these facilities had been drawn down.

At 28 February 2009 the Group is operating with substantial headroom over these bank facilities. Forecasts and trading expectations indicate that the Group will continue to operate well within the covenants attached to these facilities.

PENSION

The pension scheme is closed to future accrual. Given the Liability Driven Investment policy adopted by the Pension Trustees, the present value of the economic benefits of the IAS 19 surplus in the pension scheme of £76.2m (2008: £50.1m) available on a reduction of future contributions is £nil (2008: £nil). As a result the Group has not recognised this IAS 19 surplus on the balance sheet.

The actuarial deficit, last estimated at 31 August 2008 at approximately £30m, continues to be managed through the Liability Driven Investment policy, which minimises volatility through the hedging of interest and inflation. In addition, the Group have committed to make annual payments of around £5.4m per annum into the scheme through to August 2011.

INTERIM MANAGEMENT REPORT (continued)

POST BALANCE SHEET EVENTS

Acquisition of Bertrams

On 20 March 2009 the Group acquired the business and assets of the Bertram Group of companies. The cost of the acquisition was £8.6m, including the repayment of £7m of bank debt. It is anticipated that a further £7m injection of working capital will be required over the period to 31 August 2009 in order to increase stock availability and thereby customer service.

The Bertram Group had net liabilities of £0.2m[(5)] at 31 January 2009 and earnings before interest, tax, depreciation and amortisation in the year ended 31 January 2009 of £3.3m [(5)]. We expect this acquisition to be broadly earnings neutral in the 5-month period ending 31 August 2009, and earnings enhancing in the first full financial year of ownership.

Contract wins

Following the period end, we announced on 12 March 2009, new 5-year contracts with magazine distributors Frontline and Seymour commencing in April 2010. The contracts have a combined sales value of approximately £288m per annum and will increase Smiths News' revenues by circa £84m per annum from April 2010.

On 24 March 2009, we announced new 5-year contracts with Associated Newspapers Ltd and magazine distributor COMAG commencing November 2010 and January 2011 respectively. The contracts have a combined sales value of circa £350m per annum and will increase Smiths News' revenues by circa £65m per annum from November 2010 and a further £35m per annum from January 2011.

On 3 April 2009, we announced a new 5-year contract with Telegraph Media Group commencing Autumn 2009. The contract has a sales value of circa £136m per annum and will increase Smiths News' revenues by circa £53m per annum from Autumn 2009.

RISKS

There are a number of potential risks and uncertainties, which could have a material impact on the Group's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results. The directors consider that the principal risks and uncertainties, listed in the annual report for the year ended 31 August 2008, are still relevant. The acquisition of Bertrams adds further risks and uncertainties going forward, but we believe that a combination of sales opportunities, solid business fundamentals and a strong management team will mitigate these.

A detailed explanation of the risks and uncertainties summarised below can be found on pages 14 and 15 of the annual report.

Changes in the regulatory environment

Whilst the OFT have now issued their findings on the newspaper and magazine supply chain, there remains a risk that this could lead to changes to the current distribution arrangements.

INTERIM MANAGEMENT REPORT (continued)

Retail sales

A sustained reduction in retail sales would have an adverse effect on revenues. The recent economic downturn may impact newspapers and magazines to a greater extent than previously experienced.

Publisher investment in alternative media

The potential for publisher investment to move away from traditional newspapers and magazines to digital media could have an adverse effect on sales and growth opportunities.

Publisher investment in distribution channels

Some newspaper publishers, most notably News International, have considered direct distribution alternatives to traditional news wholesalers. Magazine publishers continue to promote subscriptions as an alternative to counter sales.

Contract renewal

We have recently secured renewed 5-year contracts with a number of publishers. However there remains a risk that other publishers could seek alternative routes to market, which could result in lower sales.

Tightening financial conditions

The tightening financial conditions could affect customers' ability to pay on time.

The failure of one or more of our key customers could result in exposure to a significant cash shortfall.

Reduced liquidity could put at risk our ability to meet loan and other trading commitments.

CAUTIONARY STATEMENT

This Interim Management Report ("IMR") has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed. The IMR should not be relied on by any other party or for any other purpose.

The IMR contains certain forward-looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

This IMR has been prepared for the Group as a whole and therefore gives greater emphasis to those matters, which are significant to Smiths News PLC and its subsidiary undertakings when viewed as a whole.

Smiths News PLC

Condensed Group Income Statement *(Unaudited)*

For the 6 months ended 28 February 2009

£m	Note	6 months to 28 Feb 2009 Underlying	6 months to 28 Feb 2009 Non-recurring items Note 4	6 months to 28 Feb 2009 **Total**	6 months to 29 Feb 2008	Audited 12 months 31 Aug 2008
Revenue	3	**609.5**	**-**	**609.5**	**618.4**	**1,240.6**
Operating profit		**16.4**	**(3.3)**	**13.1**	**17.9**	**36.1**
Investment revenues		0.6	1.4	2.0	0.4	0.8
Finance costs		(1.7)	(2.7)	(4.4)	(2.2)	(4.3)
Profit before tax	3	**15.3**	**(4.6)**	**10.7**	**16.1**	**32.6**
Income tax expense	6	(1.6)	3.1	1.5	(2.0)	(6.1)
Profit for the period		**13.7**	**(1.5)**	**12.2**	**14.1**	**26.5**
Earnings per share						
Basic	*8*			***6.8p***	*7.9p*	*14.8p*
Diluted	*8*			***6.8p***	*7.8p*	*14.7p*
Non-GAAP measures						
Underlying earnings per share						
Basic	*8*			***7.6p***	*7.9p*	*14.5p*
Diluted	*8*			***7.6p***	*7.8p*	*14.4p*

Smiths News PLC
Condensed Group Balance Sheet ***(Unaudited)***
As at 28 February 2009

£m	Note	At 28 Feb 2009	At 29 Feb 2008	Audited 31 Aug 2008
Non-current assets				
Intangible assets		4.0	3.8	4.1
Property, plant and equipment		14.0	16.8	15.5
Deferred tax assets		3.1	4.4	11.6
Interest in associate		3.4	0.1	3.3
Derivative financial instruments		-	-	0.2
		24.5	**25.1**	**34.7**
Current assets				
Inventories		10.7	10.8	12.2
Available for sale investments		-	0.5	-
Trade and other receivables		62.8	57.6	60.5
Cash and cash equivalents		4.4	3.8	3.4
		77.9	**72.7**	**76.1**
Total assets		**102.4**	**97.8**	**110.8**
Current liabilities				
Trade and other payables		(108.1)	(103.6)	(113.1)
Current tax liabilities		(1.9)	(5.5)	(6.8)
Obligations under finance leases		(1.2)	(1.8)	(1.4)
Derivative financial instruments		(1.9)	(0.2)	(0.6)
Bank overdrafts and other borrowings		(11.8)	(12.8)	(5.0)
		(124.9)	**(123.9)**	**(126.9)**
Non-current liabilities				
Bank loans and other borrowings		(39.8)	(44.7)	(39.7)
Retirement benefit obligation	5	-	-	-
Deferred tax liabilities		(1.4)	(1.6)	(10.1)
Long-term provisions		(2.8)	(0.4)	(0.7)
Obligations under finance leases		(1.2)	(1.6)	(1.3)
Other non-current liabilities		(0.6)	(0.4)	(0.4)
		(45.8)	**(48.7)**	**(52.2)**
Total liabilities		**(170.7)**	**(172.6)**	**(179.1)**
Total net liabilities		**(68.3)**	**(74.8)**	**(68.3)**
Equity				
Called up share capital	10	9.1	9.1	9.1
ESOP reserve	10	(3.9)	(3.2)	(3.9)
Other reserve	10	(280.1)	(280.1)	(280.1)
Hedging reserve	10	(1.4)	(0.2)	0.3
Retained earnings	10	208.0	199.6	206.3
Total equity		**(68.3)**	**(74.8)**	**(68.3)**

Smiths News PLC

Condensed Group Cash Flow Statement *(Unaudited)*

For the 6 months to 28 February 2009

£m	Note	6 months to 28 Feb 2009	6 months to 29 Feb 2008	Audited 12 months 31 Aug 2008
Net cash from operating activities	9	**8.4**	**7.6**	**28.7**
Investing activities				
Interest received		0.1	0.1	0.1
Proceeds on disposal of property, plant and equipment		-	-	2.3
Acquisition of investment in joint venture		(1.0)	-	(2.1)
Purchase of property, plant and equipment		(0.5)	(0.3)	(1.8)
Purchase of intangible assets		(0.5)	(1.0)	(2.0)
Net cash (used in) investing activities		**(1.9)**	**(1.2)**	**(3.5)**
Financing activities				
Interest paid		(1.5)	(2.2)	(3.6)
Non-recurring payments to settle cross currency contract	4	(1.5)	-	-
Dividend paid		(8.1)	(7.7)	(11.7)
Repayments of obligations under finance leases		(1.2)	(0.9)	(1.9)
Repayments of borrowings		-	-	(5.0)
Increase in short term borrowings		6.8	7.8	-
Net cash (used in) financing activities		**(5.5)**	**(3.0)**	**(22.2)**
Net increase in cash and cash equivalents		**1.0**	**3.4**	**3.0**
Opening net cash and cash equivalents		3.4	0.4	0.4
Closing net cash and cash equivalents		**4.4**	**3.8**	**3.4**

Smiths News PLC

Group Statement of Recognised Income and Expenses *(Unaudited)*

For the 6 months to 28 February 2009

£m	Note	6 months to 28 Feb 2009	6 months to 29 Feb 2008	Audited 12 months 31 Aug 2008
(Loss) on cash flow hedges		(1.7)	(1.1)	(0.6)
Actuarial gains on defined benefit pension scheme		10.5	36.9	45.9
Effect of asset limit on defined benefit pension scheme		(13.8)	(40.2)	(52.5)
UK deferred tax attributable to defined benefit pension scheme liabilities		(0.8)	(0.7)	(1.5)
UK current tax attributable to the additional defined benefit pension scheme contributions		1.4	1.8	3.5
Net expense recognised directly in equity		**(4.4)**	**(3.3)**	**(5.2)**
Profit for the period		12.2	14.1	26.5
Total recognised income for the period	10	**7.8**	**10.8**	**21.3**

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

Notes to the Condensed Unaudited Interim Financial Statements
For the 6 months to 28 February 2009

1 General information

These Interim Financial Statements are unaudited and not reviewed.

The information for the year ended 31 August 2008 does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was not qualified, did not draw attention to any matters by way of emphasis and did not contain statements under section 237(2) or (3) of the Companies Act 1985.

The Group meets its day to day working capital requirements through its bank facilities of £115m, which do not expire until June 2011. The Group's forecasts, taking into account the board's future expectations of the Group's performance, indicate that there is substantial headroom within these bank facilities and the Group will continue to operate well within the covenants attaching to those facilities. These bank facilities together with renewed long term contracts with a number of publishers mean that the group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the condensed consolidated interim financial information.

2 Significant accounting policies

The unaudited condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the European Union. The same accounting policies, presentation and methods of computation are followed in these unaudited condensed financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 August 2008.

3 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.

Seasonality
The Group's financial results have not historically been subject to significant seasonal trends.

4 Non-recurring items

£m	TRC Impairment	Cross-currency contract	6 months to 28 Feb 2009 Total	6 months to 29 Feb 2008	Audited 12 months 31 Aug 2008
Operating (loss)/ profit	(3.1)	(0.2)	(3.3)	-	0.1
Finance costs – investment revenues	-	1.4	1.4	-	-
Finance costs – foreign exchange loss	-	(2.7)	(2.7)	-	-
Non-recurring (loss)/ profit before tax	**(3.1)**	**(1.5)**	**(4.6)**	**-**	**0.1**
Income tax credit	0.8	2.3	3.1	-	0.4
Non-recurring (loss)/ profit after tax	**(2.3)**	**0.8**	**(1.5)**	**-**	**0.5**

Since the loss of the WH Smith PLC contract last year, The Returns Company (a returns processing business) has not yet been able to secure the contracts required to achieve scale. We continue to explore opportunities to develop the business. However, following a detailed review of the future trading prospects of the business, an impairment charge of £3.1m has been recognised to write down the assets, provide for an onerous lease liability and other re-organisation costs. This total provision of £3.1m is partially offset by a related tax credit of £0.8m. The cash impact of this provision is expected to be incurred over a three-year period.

During the six months the Group executed a cross-currency forward contract to lower the cost of borrowing. This resulted in increased investment revenues of £1.4m, offset by a foreign currency loss of £2.7m, which was fully hedged on an after tax basis. The non-recurring cash impact in the six month period ended 28 February 2009 was an outflow of £1.5m. The cash impact of the related tax credit of £2.3m will be realised over the next 12 months. As a result, the execution of the cross-currency forward contract will produce a net after tax benefit and cash inflow of £0.8m.

In the year ended 31 August 2008 the Group entered into sale and leaseback transactions over its five remaining freehold properties for a net consideration of £2.3m. This produced a profit on disposal of £1.4m. In addition the Group undertook major re-organisations of its businesses in the East Midlands and South Wales, resulting in one-off costs of £1.3m.

5 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, WH Smith Pension Trust ("Pension Trust"), and a defined contribution scheme, WH Smith Retirement Savings Plan. The Smiths News section of the Pension Trust is closed to future service accruals.

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

£m	28 Feb 2009	29 Feb 2008	31 Aug 2008
Present value of the obligation	(262.8)	(283.4)	(320.1)
Fair value of plan assets	339.0	333.5	382.5
Surplus	**76.2**	**50.1**	**62.4**
Amounts not recognised due to asset limit	(76.2)	(50.1)	(62.4)
Retirement benefit obligation recognised in the balance sheet	**-**	**-**	**-**

The pension scheme is closed to future accrual. Given the Liability Driven Investment policy adopted by the Pension Trustees, the IAS 19 surplus in the pension scheme of £76.2m (2008: £50.1m) is not regarded as available to reduce future contributions . As a result the Group has not recognised this IAS 19 surplus on the balance sheet.

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

£m	6 months to 28 Feb 2009	6 months to 29 Feb 2008	12 months to 31 Aug 2008
At beginning of period	(320.1)	(311.3)	(311.3)
Current service cost	(0.1)	(0.1)	(0.1)
Interest cost	(10.0)	(8.6)	(17.4)
Actuarial gains/ (losses)	61.4	30.9	(2.7)
Benefits paid	6.0	5.7	11.4
At end of period	**(262.8)**	**(283.4)**	**(320.1)**

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

£m	6 months to 28 Feb 2009	6 months to 29 Feb 2008	12 months to 31 Aug 2008
At beginning of period	382.5	321.2	321.2
Expected return on scheme assets	10.5	9.0	18.1
Actuarial (losses)/gains	(50.9)	6.0	48.6
Contributions	2.9	3.0	6.0
Benefits paid	(6.0)	(5.7)	(11.4)
At end of period	**339.0**	**333.5**	**382.5**

6 Income tax expense

£m	6 months to 28 February 2009	6 months to 29 February 2008	12 months to 31 August 2008
Current tax	4.2	5.0	9.6
Current tax – non-recurring items	(2.3)	-	(0.4)
Adjustment in respect of prior year UK corporation tax	(2.4)	(3.4)	(4.5)
Total current tax (credit)/ charge	**(0.5)**	**1.6**	**4.7**
Deferred tax – current year	(0.2)	0.3	1.2
Deferred tax – prior year	-	0.1	0.2
Deferred tax – non-recurring items	(0.8)	-	-
Total tax on profit	**(1.5)**	**2.0**	**6.1**
Effective tax rate	*(14.0%)*	*12.4%*	*18.7%*

The income tax rate for the six-month period is (14.0)% (six months ended 29 February 2008: 12.4%) This represents the UK Corporation tax rate of 28%, adjusted for provision releases relating to prior years of £2.4m (six months ended 29 February 2008: £3.4m) and a £3.1m tax credit relating to non-recurring current and deferred tax items, see Note 4 for further detail.

Tax on non-recurring items for the year ended 31 August 2008 relates to re-organisation costs incurred in the year at the standard rate of UK corporation tax of 29%. There is no tax charge arising on the profit on the sale of freehold properties as it is offset by capital losses brought forward.

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 (credit)/ charge

£m	6 months to 28 February 2009	6 months to 29 February 2008	12 months to 31 August 2008
Profit before tax	**10.7**	**16.1**	**32.6**
Tax on profit at the standard rate of UK corporation tax 28% (2008: 29%)	3.0	4.7	9.5
Permanent differences	(2.0)	-	0.1
Share schemes	(0.1)	0.7	1.2
Capital profits offset by capital losses	-	(0.1)	(0.4)
Adjustment in respect of prior year UK deferred tax	-	0.1	0.2
Adjustment in respect of prior year UK corporation tax	(2.4)	(3.4)	(4.5)
Total tax (credit)/ charge	**(1.5)**	**2.0**	**6.1**

7 Dividends

During the interim period, a dividend of 4.5p (2008: 4.3p) per ordinary share was paid to shareholders.

In addition, the directors are recommending an interim dividend in respect of the period ended 28 February 2009 of 2.2p per ordinary share (2008: 2.2p). This will be paid on 12 June 2009 to shareholders registered at the close of business on 15 May 2009.

8 Earnings per share

	6 months to 28 Feb 2009	6 months to 29 Feb 2008	12 months to 31 Aug 2008
	£m	£m	£m
Underlying profit for the period	**13.7**	**14.1**	**26.0**
Impact of non-recurring items	**(1.5)**	**-**	**0.5**
Profit for the period	**12.2**	**14.1**	**26.5**
	Number m	Number m	Number m
Weighted average number of shares in issue	182.9	182.9	182.9
Shares held by Employee Benefit Trust (weighted)	(3.5)	(3.8)	(3.6)
Weighted average number of shares in issue for basic earnings per share	**179.4**	**179.1**	**179.3**
Shares issuable (weighted)	0.3	1.8	1.0
Weighted average number of shares in issue for diluted earnings per share	**179.7**	**180.9**	**180.3**

Earnings per share:	Pence	Pence	Pence
Basic	6.8	7.9	14.8
Diluted	6.8	7.8	14.7
Underlying earnings per share:			
Basic	7.6	7.9	14.5
Diluted	7.6	7.8	14.4

9 Net cash inflow from operating activities

£m	6 months to 28 Feb 2009	6 months to 29 Feb 2008	12 months to 31 Aug 2008
Operating profit	13.1	17.9	36.1
Adjustment for pension funding	(2.9)	(3.0)	(5.9)
Depreciation of property, plant and equipment	2.2	2.4	4.8
Loss/(profit) on sale of property, plant and equipment	0.8	-	(1.4)
Amortisation of intangible assets	0.7	0.6	1.3
Non cash items	-	0.4	-
Share based payments	-	-	0.6
Decrease/ (increase) in inventories	1.5	1.1	(0.3)
(Increase) in receivables	(1.7)	(4.6)	(7.5)
(Decrease)/ increase in payables	(4.5)	(4.5)	4.0
Income tax paid	(2.9)	(2.6)	(3.2)
Increase/ (decrease) in provisions	2.1	(0.1)	0.2
Net cash inflow from operating activities	**8.4**	**7.6**	**28.7**

10 Reconciliation of movements in equity

£m	Share Capital	ESOP Reserve	Other Reserve	Hedging Reserve	Retained Earnings	Total
Balance at 1 September 2007	**9.1**	**(3.7)**	**(280.1)**	**0.9**	**196.4**	**(77.4)**
Total recognised income and expense for the period	-	-	-	(1.1)	11.9	**10.8**
Dividends paid	-	-	-	-	(7.7)	**(7.7)**
Employee share schemes	-	0.5	-	-	(0.5)	**-**
Recognition of share based payments	-	-	-	-	0.2	**0.2**
Transfer to available for sale investments	-	-	-	-	(0.7)	**(0.7)**
Balance at 29 February 2008	**9.1**	**(3.2)**	**(280.1)**	**(0.2)**	**199.6**	**(74.8)**
Total recognised income and expense for the period	-	-	-	0.5	10.0	**10.5**
Dividends paid	-	-	-	-	(4.0)	**(4.0)**
Employee share schemes	-	0.1	-	-	(0.1)	**-**
Recognition of share based payments	-	-	-	-	0.4	**0.4**
Movements in available for sale investments	-	(0.8)	-	-	0.4	**(0.4)**
Balance at 31 August 2008	**9.1**	**(3.9)**	**(280.1)**	**0.3**	**206.3**	**(68.3)**
Total recognised income and expense for the period	-	-	-	(1.7)	9.5	**7.8**
Dividends paid	-	-	-	-	(8.1)	**(8.1)**
Employee share schemes	-	-	-	-	-	**-**
Recognition of share based payments	-	-	-	-	0.3	**0.3**
Balance at 28 February 2009	**9.1**	**(3.9)**	**(280.1)**	**(1.4)**	**208.0**	**(68.3)**

11 Contingent Liability

The Group has a potential liability that could crystallise in respect of previous assignments of leases where the liability could revert to the Group if the lessee defaulted. Pursuant to the terms of the Demerger Agreement, any such contingent liability, which becomes an actual liability will be apportioned between Smiths News PLC and WH Smith PLC in the ratio 35:65 (provided that the actual liability of Smiths News PLC in any 12 month period does not exceed £5m). The company's share of these leases has an estimated future cumulative gross rental commitment at 28 February 2009 of £32.8m (31 August 2008: £34.4m).

12 Events after the balance sheet date

On 20 March 2009 the Group acquired the business and assets of the Bertram Group of companies. The cost of the acquisition was £8.6m (including the repayment of the existing bank debt of the business). It is anticipated that a further £7m injection of working capital will be required over the period to 31 August 2009 in order to increase stock availability and thereby customer service.

The acquisition had the following effect on the Group's assets and liabilities on acquisition date:

£m	Book value of identifiable assets acquired and liabilities assumed
Property, plant and equipment	3.0
Inventories	8.2
Trade and other receivables	12.1
Cash and cash equivalents	(0.4)
Trade and other payables	(22.3)
Bank loans and other borrowings	(7.0)
Obligations under finance leases	(0.7)
Net identifiable assets and liabilities	**(7.1)**
Directly attributable acquisition costs	(1.8)
Provisional estimate of goodwill	10.5
Cash transferred as consideration	**(1.6)**

Due to the proximity of the acquisition to the reporting date there has not been sufficient time to undertake a fair value or intangible asset valuation exercise, and as such the values disclosed are provisional. The results of the fair value exercise will be presented in the financial statements for the year ending 31 August 2009.

Contract wins

On 12 March 2009, the Group announced new 5-year contracts with magazine distributors Frontline Group ("Frontline") and Seymour commencing in April 2010. The contracts have a combined sales value of approximately £288m per annum and will increase Smiths News' revenues by circa £84m per annum from April 2010.

On 24 March 2009, the Group announced new 5-year contracts with Associated Newspapers and COMAG commencing in November 2010 and January 2011 respectively. The contracts have a combined sales value of approximately £350m per annum and will increase Smiths News' revenues by circa £65m per annum from November 2010 and a further £35m per annum from January 2011.

On 3 April 2009, the Group announced a new 5-year contract with the Telegraph Media Group commencing in the Autumn 2009. This contract has a sales value of approximately £136m per annum and will increase Smiths News' revenues by circa £53m per annum from this date.

13 Responsibility statement

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting'
- the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the Board.

Mark Cashmore
Group Chief Executive
23 April 2009

Alan Humphrey
Group Finance Director
23 April 2009