

Smiths News PLC

Smiths News PLC Unaudited Interim Results for the six months ended 28 February 2010

Financial highlights:

- Revenue of £919.8m, up 50.9% (2009: £609.5m)
- Underlying⁽¹⁾ profit before tax of £17.3m, up 13.1% (2009: £15.3m)
- Profit before tax £15.3m, up 43.0% (2009: £10.7m)
- Underlying earnings per share⁽²⁾ of 7.2p, up 4.3% (2009: 6.9p)
- Interim dividend of 2.4p, up 9.1% (2009: 2.2p)
- Free cash flow⁽³⁾ of £4.1m (2009: £6.1m)

Operational highlights:

- Integration of Dawsons firmly on track
 - SAP fully implemented across the former Dawsons estate
 - 14 network changes completed
 - On target to deliver £6m annualised cost savings with £3m this year in new territories
- Cost efficiencies in core business offsetting inflation
- Regional Press gains of £25m annualised sales
- Bertrams performing ahead of expectations
 - £2.4m operating profit achieved in the first half
 - New two year book contract won with HMV
- Magazine sales showing signs of improvement
- Outlook for 2010 ahead of market expectations

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

“Our progress over the last six months has been excellent and is testament to the quality of our business and people. The integration of the former Dawsons depots remains firmly on track and, with SAP now fully installed, this will underpin our drive in achieving future efficiencies and cost savings.”

The contract awards of 2009, together with recent Regional Press gains, have substantially increased the revenues of Smiths News. Bertrams continues to perform ahead of our expectations and is now well placed to capitalise on growing its on-line, academic and international sales. Smiths News remains firmly on target to exceed market expectations for the current financial year and our confidence is mirrored by a 9.1% increase in the interim dividend. I look forward to updating the market on further progress later in the year.”

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Smiths News PLC's unaudited interim results for the six months ended 28 February 2010 are available at www.smithsnews.co.uk.

Financial Results:

	6 months to Feb 2010	6 months to Feb 2009		6 months to Feb 2010	6 months to Feb 2009	
	Underlying⁽¹⁾	Underlying ⁽¹⁾	Change Fav / (adv)	Statutory	Statutory	Change Fav / (adv)
Revenue	£919.8m	£609.5m	50.9 %	£919.8m	£609.5m	50.9%
Profit before tax	£17.3m	£15.3m	13.1%	£15.3m	£10.7m	43.0%
Earnings per share	7.2p⁽²⁾	6.9p⁽²⁾	4.3%	6.8p	6.8p	-
Interim dividend	2.4p	2.2p	9.1%	2.4p	2.2p	9.1%
Free cash flow ⁽³⁾	£4.1m	£6.1m	(32.8%)	£4.1m	£6.1m	(32.8%)

The following definitions have been applied consistently throughout this interim results announcement:

- (1) Underlying 2010 and 2009 results exclude non-recurring items and amortisation of acquired intangibles.
- (2) Underlying earnings per share for 2010 and 2009 is calculated using underlying profit before tax and a tax rate that is adjusted to reflect the expected underlying full year charge.
- (3) Free cash flow is cash flow excluding the following; payment of dividends, acquisition costs, repayments of obligations under finance leases, repayment of bank loans and cash flows relating to non-recurring items.
- (4) Smiths News and Bertrams are also referred to as the Newspaper and Magazine wholesaling segment and the Book wholesaling segment respectively.
- (5) 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.
- (6) Net debt is calculated as total debt less cash and cash equivalents. Total debt includes loans and borrowings, overdrafts and obligations under finance leases.

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 Company 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 30,000 customers across England and Wales, supplying large general retailers as well as smaller independent newsagents. Smiths News has an approximate 55% share of the newspaper and magazine wholesaling market 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 an approximate 45% share of the wholesale book market.

The Company operates from 62 distribution centres across England and Wales, and employs 5,586 staff.

OPERATIONAL REVIEW

Introduction

We are pleased to report another strong set of results in a crucial period of integration and change for Smiths News. 2009 unquestionably represented a step change for the Group, with the acquisition of Bertrams and contract wins increasing our annualised revenues by £600m, and the industry migrating from three news wholesalers to two. The challenge over the last six months has been to manage that change and position the Group for the opportunities that lie ahead.

Operationally, Smiths News remains best in class, maintaining the highest levels of customer service and efficiency. The Group is on target to deliver annual cost savings of £6m in new territories, of which £3m will be delivered in the current financial year. Efficiencies in the base business continue to offset inflation.

Revenues of £920m are up £310m, reflecting the unprecedented level of new business won in magazine and newspaper distribution. Underlying profit before tax of £17.3m is up £2m as a result of the benefit of the Bertrams acquisition. The proposed interim dividend of 2.4p, an increase of 9.1%, highlights our confidence in the Group's future prospects.

Strategy Update

In October 2009, the Group outlined six strategic priorities for the year ahead, namely:

- To complete the full integration (including SAP) of the depots acquired from Dawson News
- To raise the standards of service in our new depots to those of our established locations
- To maintain tight cost control across the Group delivering £6m annualised savings from former Dawsons territories
- To increase the sales and profitability of Bertrams by leveraging the Group's existing relationships, as well as its expertise in service and efficiency
- To research, prepare for and be alert to new business development opportunities that would enhance the Group; and
- To invest in our people and increase our pool of market leading talent

We are pleased to report that progress is being made on all fronts. Our key priority in the short term has been the integration of the depots acquired from Dawsons. That process, and in particular the implementation of SAP throughout the newly acquired network, is firmly on track.

Markets

We operate in large markets that have performed relatively well in the context of the broader economic environment. The newspaper market is worth around £2.4 billion at retail value. Contrary to some perceptions, its value has grown over the last five years, driven by price rises outstripping volume declines. UK consumers continue to buy over 10 million newspapers every day and printed product remains the predominant source of profit for publishers. Absolute value is down this year, although this has been heavily influenced by intense price discounting on the Sun and the Star.

The magazine market is worth around £1.9 billion at retail value. Although the market remains down in absolute terms it is encouraging to see an improvement in that trend. Last October the 12-month trend for magazines was down (7.6)%: by January this had improved by four percentage points and the 6-month trend to the end of February is down (3.1)%. There are three significant factors in this improvement: the use of multi-packs, stronger publisher promotions, and an improvement in one shots, particularly sticker sales that have been boosted by interest in the World Cup.

The UK books market is worth around £3.4 billion at retail value. It has seen growth over five years, tempered by difficult trading in the last 12 months. Recent declines need to be seen in the context of heavy price discounting by the major retailers, which has little impact on our sales. The

development of e-books is something that we are watching carefully, but at the moment they represent less than 1% of sales.

These markets are an important part of UK culture, with the printed product still the predominant source of profit for publishers.

Dawsons Integration

As we highlighted earlier in the statement, the seamless integration of the former Dawsons depots and ensuring an uninterrupted distribution on behalf of publishers, retailers and customers is a key priority for the Group.

We are pleased to report the successful implementation of SAP across the 17 former Dawsons depots. The size and complexity of this task should not be underestimated. Migrating to SAP involved a change at every level: from distribution and marketing to customer services, administration and accounts. Every process was affected, and hence we made improvements right across the business. Ultimately, SAP is the reason costs in our established locations are lower than those in the former Dawsons depots – and why the service they provide is better and more consistent.

The scale of this achievement is significant. Since September we have implemented SAP at 17 locations, training over 1,000 staff on our processes, and improving service to over 8,000 customers. We have also closed the former Dawsons Head Office at Croydon, migrating the relevant systems to our head office in Swindon and the accounting centre in Bradford. We have achieved all of this without a single failure or setback.

Following the volume growth in our newspaper and magazine distribution businesses we made some tactical changes to our network resulting in the consolidation of less time sensitive magazine operations into fewer, larger locations. As a consequence, we have made 14 network changes which have impacted 25 depots.

Cost control has always been central to the Groups' strategy. We have identified £6m of annualised savings from the former Dawsons depots, of which £3m will be delivered in this financial year and a further £3m in the next.

Looking further ahead there is much that can be achieved. Following the contract wins, the cost base has risen by 40% which presents new opportunities to streamline and lower our costs to serve. We are currently reviewing and evaluating these but the Group's near term priority is to focus on the initial phase of Dawsons' integration.

Bertrams

Bertrams operating profit of £2.4m was ahead of our expectations and significantly ahead of the £0.7m achieved in the equivalent period last year, prior to our ownership. The performance in the half year reflects a strong Christmas, driven by growth in internet sales; other factors were growing international sales and the 'back to university' period last autumn. As expected, excellent cost control was also a contributory factor.

Bertrams recently negotiated a new contract with HMV which will run until March 2012 and covers the supply of books to their 272 stores. Discussions with other major retailers and further commercial opportunities are ongoing.

Bertrams continues to benefit from the operational expertise across the Group. This month Bertrams entered into consultation over the move of Bertram Library Services from Leeds to Norwich. This would reduce costs, but just as importantly it would improve service by reducing the lead time for the processing of library books, one of the key measures of service identified by the library consortia.

Regional Press

Regional Press represents an additional opportunity for the Group through a combination of maximising our expanded UK footprint and capitalising on the move to overnight printing by many of the major regional centres.

The Group is therefore pleased to report further gains in this area totalling £25m on an annualised basis. This represents a third successive year of contract gains which now total £45m since demerger.

The UK Regional Press market is worth an estimated £400m of annualised revenue of which Smiths News accounts for £65m or 16% market share. As the economic pressures continue to impact on the regional publishers we believe this market will present further opportunities.

Business Development

The Group continues to review opportunities for business development and has announced the promotion of Jon Bunting to Chief Commercial Officer and his appointment to the Board. Part of Jon's remit will be to leverage the opportunities across all Group businesses which includes Smiths News, Bertrams, Instore our merchandising business, and Rascal our jointly owned software and stock management business.

As we increase our range of products and services there are opportunities to build on the Group's relationships with existing customers as well as attracting new ones. One such example of how this is already working is the contract we have recently started with The Daily Mail and Mail on Sunday to fulfil their book sales.

To support Jon, we will be appointing a Head of Business Development as well as creating an in-house team involving some of our most senior managers. We believe that a strategy to maximise organic revenue opportunities will complement any future bolt-on or new market acquisition the Company may pursue.

Business development and broadening our revenue mix remains a key strategic goal and is closely aligned to our drive to maximise shareholder value.

Board Changes

In March 2010, Alan Humphrey, Group Finance Director of Smiths News PLC, announced his decision to retire after a 28 year career with both WH Smith and Smiths News. During his time with Smiths News, he has made an outstanding contribution during a period of unprecedented change, including the Company's successful demerger from WH Smith in September 2006, delivering substantial market growth in the Group's news distribution business and the recent acquisition of Bertram Books.

As announced separately, Nick Gresham, currently Finance Director of Homebase a wholly owned subsidiary of Home Retail Group, has agreed to join Smiths News PLC as Chief Financial Officer. Nick brings a wealth of experience having spent eight years in senior financial roles at Home Retail Group. Prior to this Nick was Head of Strategic Finance at GUS and held key financial roles at Virgin Music Group Ltd and Debenhams Plc.

In addition and as mentioned above, Jon Bunting has been appointed to the Board as an executive director effective 1 April 2010.

Outlook

We expect our core markets to continue throughout the year in line with current trends.

Having significantly grown revenues in Smiths News and made excellent progress in integrating the Dawsons territories into our network, we will deliver £3m of cost savings in the current financial year, achieving an annualised run rate of £6m by the financial year end.

Bertrams has made strong progress under our ownership delivering profit ahead of expectations in the first half and looking forward we expect further improvements in efficiencies whilst capitalising on a number of commercial opportunities.

It is with this confidence that the Board propose an interim dividend of 2.4p, an increase of 9.1%.

The business is now firmly on track to exceed market expectations for the current financial year.

INTERIM MANAGEMENT REPORT (continued)

FINANCIAL REVIEW

REVENUE

	Feb 2010 £m	Feb 2009 £m	Change Fav/(Adv) %	Like-for- like ⁽⁵⁾ growth Fav/(Adv) %
Newspapers	471.6	335.6	40.5	(3.4)
Magazines	334.7	243.9	37.2	(3.1)
Other	37.7	30.0	25.7	(4.7)
Smiths News	844.0	609.5	38.5	(3.3)
Bertrams	75.8	-	-	
Total revenue	919.8	609.5	50.9	

Total Group revenues of £919.8m are up £310.3m (50.9%) on last year. This increase results from the major contract gains within Smiths News last year and the acquisition of Bertrams in March 2009.

Total revenues within Smiths News of £844.0m are up £234.5m (38.5%) the increase coming from contract gains secured in the prior year.

Like-for-like newspaper revenues are down 3.4%, the result of continuing volume declines and price discounting on certain mass market titles.

The signs of improvement in magazine sales, signalled in our preliminary results in October, has continued throughout the first half of this year. The decline in like-for-like sales has slowed to 3.1% compared to last year's decline of 7.6%. Sticker collection sales have been particularly strong in the first half and we look forward to more of the same in the second half with the forthcoming World Cup.

Bertrams revenues totalled £75.8m in the half year. Bertrams had a good autumn on the back of strong International sales and has traded well over the Christmas period.

INTERIM MANAGEMENT REPORT (continued)

INCOME STATEMENT EXTRACTS – EXCLUDING NON-RECURRING ITEMS

	Smiths News Underlying Feb 2010 £m	Bertrams Underlying Feb 2010 £m	Total Underlying Feb 2010 £m	Total Underlying Feb 2009 £m	Change Fav/(Adv) %
Gross profit	75.6	13.7	89.3	58.6	52.4
<i>Gross margin</i>	9.0%	18.1%	9.7%	9.6%	
Operating costs	(59.5)	(11.3)	(70.8)	(42.2)	(67.8)
Operating profit	16.1	2.4	18.5	16.4	12.8
Net finance costs			(1.2)	(1.1)	(9.1)
Profit before tax			17.3	15.3	13.1
Taxation			(3.5)	(1.6)	
Profit after tax			13.8	13.7	0.7

Increased revenues have resulted in Group gross profit of £89.3m up £30.7m (52.4%) on last year.

As expected the Group gross margin percentage of 9.7% has improved marginally compared to last year. This results from the benefit of the higher gross margin achieved by Bertrams partly offset by the margin dilution in Smiths News arising from the contract renewals.

Group operating costs of £70.8m are up £28.6m (67.8%) driven by the increased costs of servicing contract gains and the inclusion of Bertram's costs.

A key challenge for the business this year is to drive efficiency savings from the new business gained from Dawson News. The business is firmly on course to deliver savings of £3m in this financial year, with clear plans in place to achieve a further £3m of annualised savings in the following financial year. A further £1m of cost savings were delivered in the Smiths News base business during the period offsetting the impact of inflation.

Group finance costs for the year of £1.2m were marginally ahead of last year, due largely to a higher debt position arising from the acquisition of Bertrams and the integration of Dawson News.

Underlying profit before tax of £17.3m is 13.1% up on last year (2009: £15.3m).

The underlying tax charge for the half year of £3.5m represents an effective tax rate of 20% (2009: 11%) benefiting from the release of prior year provisions of £1.1m (2009: £2.4m).

We anticipate that the full year underlying effective tax rate for the 2010 financial year will continue to be marginally lower than the standard rate, but going forward we expect it to trend back to the standard rate of corporation tax for the UK.

Underlying profit after tax of £13.8m is up 0.7% on last year (2009: £13.7m).

INTERIM MANAGEMENT REPORT (continued)

NON-RECURRING AND OTHER ITEMS

	Feb 2010 £m	Feb 2009 £m
Reorganisation costs	(2.2)	-
The Returns Company	0.7	(3.1)
Amortisation of acquired intangibles	(0.5)	-
Cross-currency contract	-	(1.5)
Loss before tax	(2.0)	(4.6)
Taxation	0.5	3.1
Loss after tax	(1.5)	(1.5)

Reorganisation costs of £2.2m incurred in the period relate to contract changes and the integration of the former Dawson News business. It is expected that further reorganisation costs amounting to circa £2.8m will be incurred in the remainder of the financial year.

On 3 February 2010 The Returns Company (a returns processing business) was sold. In 2009 an impairment charge of £3.1m was recognised to write down the assets and provide for an onerous lease liability. The sale of the business allowed an earlier exit from the lease than was anticipated, resulting in a £0.7m provision release.

The intangible assets relating to the acquisition of Bertrams are being amortised over their expected economic lives. The charge for the six months ended 28 February 2010 is £0.5m.

During the six months ended 28 February 2009 the Group invested in a cross-currency forward contract to lower the total cost of borrowing on an after tax cash basis. This contract 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 pre tax loss of £1.5m but a post tax benefit of £0.8m.

INTERIM MANAGEMENT REPORT (continued)

EARNINGS PER SHARE AND DIVIDEND

	Underlying		Statutory	
	Feb 2010	Feb 2009	Feb 2010	Feb 2009
Profit after tax (£m)	13.8	13.7	12.3	12.2
Adjustment to reflect full year tax rate (£m)	(0.8)	(1.3)	-	-
Profit after tax (£m)	13.0⁽²⁾	12.4⁽²⁾	12.3	12.2
Basic number of shares (millions)	180.0	179.4	180.0	179.4
EPS	7.2p⁽²⁾	6.9p⁽²⁾	6.8p	6.8p
Dividend per share	2.4p	2.2p	2.4p	2.2p

Underlying earnings per share, is calculated using underlying profit and the underlying expected full year tax rate for 2010 of 25% (2009:19%). On this basis, underlying EPS for the period is 7.2p up 4.3% on last year (2009: 6.9p).

On a statutory basis EPS for the period of 6.8p is flat with last year.

The Board has declared an interim dividend of 2.4p, which is a 9.1% increase on last year (2009: 2.2p), reflecting confidence in the business and its strong cash generation going forward. The dividend will be paid on 11 June 2010 to shareholders on the register at the close of business on 14 May 2010.

The final dividend for the year ended 31 August 2009 of 4.6p was paid to shareholders on 5 February 2010.

INTERIM MANAGEMENT REPORT (continued)

FREE CASH FLOW

	6 months	6 months	12 months
	Feb 2010	Feb 2009	Aug 2009
	£m	£m	£m
Underlying profit before interest and tax	18.5	16.4	32.4
Depreciation & amortisation	3.6	2.9	6.7
Underlying EBITDA	22.1	19.3	39.1
Working capital	(6.8)	(4.7)	4.6
Capital expenditure	(4.3)	(1.0)	(5.2)
Net interest paid	(1.4)	(1.5)	(2.9)
Taxation	(2.5)	(2.9)	(5.6)
Ongoing pension deficit funding	(2.9)	(2.9)	(5.7)
Other movements	(0.1)	(0.2)	(0.6)
Free cash flow⁽³⁾	4.1	6.1	23.7

The Group generated £4.1m of free cash flow in the six month period. This is £2m lower than last year, with higher profitability being offset by increased investment in working capital and capital expenditure.

The increased investment in working capital largely relates to the inherent seasonality in the Bertrams business.

The increased capital expenditure, relates to investment in systems and equipment required to bring the former Dawson News estate in line with Smiths News.

Notwithstanding this higher level of expenditure the Group expects to generate around £20m of free cash flow across the full year.

INTERIM MANAGEMENT REPORT (continued)

NET DEBT

	6 months Feb 2010 £m	6 months Feb 2009 £m	12 months Aug 2009 £m
Opening net debt⁽⁶⁾	(49.5)	(44.0)	(44.0)
Free cash flow	4.1	6.1	23.7
Dividend paid	(8.3)	(8.1)	(12.0)
Acquisitions	-	(1.0)	(12.2)
Non-recurring items	(4.0)	(1.5)	(1.2)
Finance leases	0.4	(1.2)	(3.8)
(Increase) in net debt⁽⁶⁾	(7.8)	(5.7)	(5.5)
Closing net debt⁽⁶⁾	(57.3)	(49.7)	(49.5)

Net debt at 28 February 2010 stands at £57.3m, an increase of £7.8m in the 6 months since 31 August 2009. This increase results from the payment of last year's final dividend of £8.3m, together with non-recurring cash outflows relating to the reorganisation of the former Dawson News estate of £4.0m, offsetting free cash inflows of £4.1m and the reduction in finance lease creditors of £0.4m

The Group currently has total bank facilities in place of £110m. In June 2010, £5m of these facilities are repayable, with the remaining facilities expiring in June 2011. At 28 February 2010, £53.8m of these facilities had been drawn down.

Forecasts and trading expectations indicate that the Group will continue to operate well within the covenants attached to these facilities.

PENSION

The defined benefit pension scheme had an IAS 19 surplus at 28 February 2010 of £27.4m (Feb 2009: £76.2m). However as the pension scheme is closed to further accrual, this IAS 19 surplus is not available as a reduction of future contributions or through a funding holiday, and as a result the Group has not recognised this surplus on the balance sheet.

The actuarial deficit, last valued at 31 March 2009 at £50m, continues to be managed through the Liability Driven Investment policy, which minimises volatility through the hedging of interest and inflation. In addition, the Group has committed to make annual payments of £5.8m into the scheme over the next ten years.

INTERIM MANAGEMENT REPORT (continued)

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 2009, are still relevant.

A detailed explanation of the risks and uncertainties, together with mitigations, summarised below can be found on pages 19 to 21 of the annual report.

Integration of new contract gains

A failure to meet key deadlines relating to the integration of the contract gains could result in rectification costs, reduced efficiency and failure to achieve contractual KPIs.

The integration of the contract gains is going to plan, timescale and budget. SAP systems have now been implemented in all depots enabling further process efficiencies and the achievement of KPIs.

Impact of passive sales

In line with guidance from the OFT the new contracts awarded by magazine publishers make allowance for sales outside of designated territories on request from retailers.

The combination of a leading service and most efficient operation means Smiths News is well placed to respond to any such requests.

Retail sales

A sustained reduction in retail sales would have an adverse effect on revenues and could also undermine the business models of publishers leading to title closures.

The recent Smiths News contract gains and the acquisition of Bertrams have increased revenues and created opportunities for future efficiency gains. The markets in which we operate (Newspapers, Magazines and Books) are large and have proven resilient through the recent tough economic times.

Digital media

The potential for consumers to move from traditional newspapers, magazines and books to digital media could have an adverse effect on sales and growth opportunities.

Publishers continue to invest in print and production facilities and given that the vast majority of publishers do not make substantial profits from stand alone digital alternatives the Group believes that there remains a strong future for traditional printed publications.

Property and lease commitments

The terms of the Demerger Agreement are such that contingent liabilities relating to previously assigned leases could crystallise and revert to the Group if the lessee defaults. At 28 February 2010 the Group's share of these contingent liabilities has an estimated future cumulative gross rental commitment of £23.9m (Aug 2009: £26.6m).

Although the total contingent liability is significant, many of the retail companies to whom leases were assigned continue to trade well and are financially robust. Over time it is likely that many of the leases have expired or been regeared. For those leases that do revert to the Group, it is likely that they can be reassigned or sublet in the short term. The cash impact of the contingent liability stated above would be spread over more than 10 years.

Continued difficult economic conditions

Continued difficult economic conditions could affect customers' ability to pay or result in customer failure. This could lead to a significant cash shortfall and put at risk the Group's ability to meet loan and other trading commitments.

The largest credit exposure is to some of the UK's major retailers who have strong credit ratings. We have credit insurance against a number of smaller multiple retail chains. The Group continues to generate strong free cash flow, has bank facilities in place until June 2011 and operates well within its existing banking covenants.

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 Consolidated Income Statement (Unaudited)

For the 6 months to 28 February 2010

£m	Note	6 months to 28 Feb 2010			6 months to 28 Feb 2009			Audited 12 months to 31 Aug 2009		
		Under-lying	Non-recurring items Note 4	Total	Under-lying	Non-recurring items Note 4	Total	Under-lying	Non-recurring items Note 4	Total
Revenue	3	919.8	-	919.8	609.5	-	609.5	1,326.0	-	1,326.0
Operating profit	3	18.5	(2.0)	16.5	16.4	(3.3)	13.1	32.4	(10.8)	21.6
Investment revenues		0.3	-	0.3	0.6	1.4	2.0	1.2	1.4	2.6
Finance costs		(1.5)	-	(1.5)	(1.7)	(2.7)	(4.4)	(3.1)	(2.7)	(5.8)
Profit before tax	3	17.3	(2.0)	15.3	15.3	(4.6)	10.7	30.5	(12.1)	18.4
Taxation	6	(3.5)	0.5	(3.0)	(1.6)	3.1	1.5	(5.7)	5.0	(0.7)
Profit for the period		13.8	(1.5)	12.3	13.7	(1.5)	12.2	24.8	(7.1)	17.7

Earnings per share

Basic	8	6.8p	6.8p	9.9p
Diluted	8	6.8p	6.8p	9.9p

Non-GAAP measures

Underlying earnings per share⁽²⁾

Basic	8	7.2p	6.9p	13.8p
Diluted	8	7.2p	6.9p	13.8p

Smiths News PLC

Condensed Consolidated Statement of Comprehensive Income (Unaudited)

For the 6 months to 28 February 2010

£m	Note	6 months to 28 Feb 2010	6 months to 28 Feb 2009	Audited 12 months to 31 Aug 2009
Other comprehensive income:				
Gains/ (losses) on cash flow hedges		0.3	(1.7)	(1.7)
Actuarial gains/ (losses) on defined benefit pension scheme		4.7	10.5	(50.0)
Effect of asset limit on defined benefit pension scheme		(8.1)	(13.8)	43.1
Tax relating to components of other comprehensive income		1.1	0.6	1.8
Other comprehensive income for the period		(2.0)	(4.4)	(6.8)
<hr/>				
Profit for the period		12.3	12.2	17.7
Total comprehensive income for the period		10.3	7.8	10.9

Total comprehensive income for the period is fully attributable to the equity holders of the parent company.

Smiths News PLC
Condensed Consolidated Balance Sheet (Unaudited)
As at 28 February 2010

£m	Note	At 28 Feb 2010	At 28 Feb 2009	Audited 31 Aug 2009
Non-current assets				
Intangible assets		12.6	4.0	12.7
Property, plant and equipment		21.6	14.0	21.1
Interest in joint venture and associate		3.5	3.4	3.5
Deferred tax assets		2.8	3.1	3.3
		40.5	24.5	40.6
Current assets				
Inventories		30.1	10.7	31.1
Trade and other receivables		107.2	62.8	114.8
Cash and cash equivalents		5.4	4.4	4.3
		142.7	77.9	150.2
Total assets		183.2	102.4	190.8
Current liabilities				
Trade and other payables		(176.1)	(108.1)	(191.6)
Current tax liabilities		(1.4)	(1.9)	(1.2)
Obligations under finance leases		(1.5)	(1.2)	(1.5)
Bank overdrafts and other borrowings		(24.1)	(11.8)	(15.1)
Provisions		(1.2)	(1.0)	(3.8)
Derivative financial instruments		(0.1)	(0.5)	(0.2)
		(204.4)	(124.5)	(213.4)
Non-current liabilities				
Bank loans and other borrowings		(34.6)	(39.8)	(34.3)
Retirement benefit obligation	5	-	-	-
Deferred tax liabilities		(1.7)	(1.4)	(2.0)
Long-term provisions		(3.7)	(1.8)	(4.6)
Obligations under finance leases		(2.5)	(1.2)	(2.9)
Derivative financial instruments		(1.0)	(1.4)	(1.3)
Other non-current liabilities		(0.9)	(0.6)	(0.7)
		(44.4)	(46.2)	(45.8)
Total liabilities		(248.8)	(170.7)	(259.2)
Total net liabilities		(65.6)	(68.3)	(68.4)
Equity				
Called up share capital		9.1	9.1	9.1
ESOP reserve		(2.5)	(3.9)	(3.4)
Other reserve		(280.1)	(280.1)	(280.1)
Hedging reserve		(1.1)	(1.4)	(1.4)
Retained earnings		209.0	208.0	207.4
Total equity		(65.6)	(68.3)	(68.4)

Smiths News PLC

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the 6 months to 28 February 2010

£m	Share Capital	ESOP Reserve	Other ¹ Reserve	Hedging Reserve	Retained Earnings	Total
Balance at 1 September 2008	9.1	(3.9)	(280.1)	0.3	206.3	(68.3)
Total comprehensive income 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)
Total comprehensive income for the period	-	-	-	-	3.1	3.1
Dividends paid	-	-	-	-	(3.9)	(3.9)
Employee share schemes	-	0.5	-	-	(0.5)	-
Recognition of share based payments	-	-	-	-	0.7	0.7
Balance at 31 August 2009	9.1	(3.4)	(280.1)	(1.4)	207.4	(68.4)
Total comprehensive income for the period	-	-	-	0.3	10.0	10.3
Dividends paid	-	-	-	-	(8.3)	(8.3)
Employee share schemes	-	0.9	-	-	(0.9)	-
Recognition of share based payments	-	-	-	-	0.8	0.8
Balance at 28 February 2010	9.1	(2.5)	(280.1)	(1.1)	209.0	(65.6)

¹ The 'Other reserve' includes reserves created in relation to the proforma restatement and the demerger of WH Smith PLC.

Smiths News PLC

Condensed Consolidated Group Cash Flow Statement (Unaudited)

For the 6 months to 28 February 2010

£m	Note	6 months to 28 Feb 2010	6 months to 28 Feb 2009	Audited 12 months to 31 Aug 2009
Net cash from operating activities	9	6.7	8.4	31.9
Investing activities				
Interest received		0.1	0.1	0.1
Acquisition of investment in joint venture		-	(1.0)	(1.0)
Acquisition of investment in Bertrams		-	-	(11.2)
Purchase of property, plant and equipment		(3.4)	(0.5)	(4.0)
Purchase of intangible assets		(0.9)	(0.5)	(1.2)
Net cash (used in) investing activities		(4.2)	(1.9)	(17.3)
Financing activities				
Interest paid		(1.4)	(1.5)	(4.2)
Non-recurring payments to settle cross-currency contract		-	(1.5)	-
Dividends paid		(8.3)	(8.1)	(12.0)
Repayments of obligations under finance leases		(0.7)	(1.2)	(2.6)
Repayments of borrowings		-	-	(5.0)
Increase in short term borrowings		9.0	6.8	10.1
Net cash (used in) financing activities		(1.4)	(5.5)	(13.7)
Net increase in cash and cash equivalents		1.1	1.0	0.9
Opening net cash and cash equivalents		4.3	3.4	3.4
Closing net cash and cash equivalents		5.4	4.4	4.3

Smiths News PLC

Notes to the Condensed Unaudited Interim Financial Statements

For the 6 months to 28 February 2010

1 General information

These Interim Financial Statements are unaudited and not reviewed.

The information for the year ended 31 August 2009 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. 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 498(2) or (3) of the Companies Act 2006.

Going Concern

The Group meets its day to day working capital requirements through its committed bank facilities, as set out below:

- a £40m term loan of which £5m is repayable in June 2010, with the balance repayable in June 2011;
- a £50m revolving credit facility is in place which is also repayable in June 2011; and
- a committed asset backed facility of up to £20m, secured against the debtors of Bertrams.

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 2009.

In the current period IAS 1 (revised 2007) *Presentation of Financial Statements* has been adopted, which has resulted in a number of changes in the format of the financial statements.

Smiths News PLC

Notes to the Condensed Unaudited Interim Financial Statements

For the 6 months to 28 February 2010

3 Segmental analysis of results

The information presented to the Board for the purpose of resource allocation and assessment of segment performance is focused on the type of product sold. The principal activities of the Group reported to the Board are split into two categories of products sold:

- Newspaper and Magazine wholesaling (referred to as Smiths News).
- Book wholesaling (referred to as Bertrams).

The following is an analysis of the Group's revenue and results by reportable segment in the six months ended 28 February 2010:

Continuing operations £m	Newspaper & Magazine wholesaling			Book wholesaling			Consolidated		
	6 months to		12 months to	6 months to		12 months to	6 months to		12 months to
	28 Feb 2010	28 Feb 2009	31 Aug 2009	28 Feb 2010	28 Feb 2009	31 Aug 2009	28 Feb 2010	28 Feb 2009	31 Aug 2009
Revenue	844.0	609.5	1,272.5	75.8	-	53.5	919.8	609.5	1,326.0
Underlying operating profit	16.1	16.4	31.7	2.4	-	0.7	18.5	16.4	32.4
Non-recurring and other items	(2.0)	(3.3)	(10.4)	-	-	(0.4)	(2.0)	(3.3)	(10.8)
Operating profit	14.1	13.1	21.3	2.4	-	0.3	16.5	13.1	21.6
Net finance costs							(1.2)	(2.4)	(3.2)
Profit before tax							15.3	10.7	18.4
Taxation							(3.0)	1.5	(0.7)
Profit for the period							12.3	12.2	17.7

Other Segment information £m	Assets			Liabilities		
	6 months to		12 months to	6 months to		12 months to
	28 Feb 2010	28 Feb 2009	31 Aug 2009	28 Feb 2010	28 Feb 2009	31 Aug 2009
Newspaper & Magazine wholesaling	128.8	102.4	138.9	(175.6)	(125.9)	(181.9)
Book wholesaling	53.3	-	50.6	(32.0)	-	(36.0)
Unallocated assets/ (liabilities)	1.1	-	1.3	(41.2)	(44.8)	(41.3)
Consolidated	183.2	102.4	190.8	(248.8)	(170.7)	(259.2)

Unallocated assets and liabilities include the Group's debt facility, related derivative financial instruments and deferred tax balances that arise on consolidation.

Smiths News PLC

Notes to the Condensed Unaudited Interim Financial Statements

For the 6 months to 28 February 2010

4 Non-recurring and other items

£m	6 months to 28 Feb 2010				6 months to 28 Feb 2009	Audited 12 months to 31 Aug 2009
	Re- organisation costs	TRC Impairment	Amortisation of acquired intangibles	Total	Total	Total
Operating (loss)/ profit	(2.2)	0.7	(0.5)	(2.0)	(3.3)	(10.8)
Finance costs	-	-	-	-	(1.3)	(1.3)
Non-recurring (loss)/ profit before tax	(2.2)	0.7	(0.5)	(2.0)	(4.6)	(12.1)
Taxation	0.7	(0.2)	-	0.5	3.1	5.0
Non-recurring (loss)/ profit after tax	(1.5)	0.5	(0.5)	(1.5)	(1.5)	(7.1)

Reorganisation costs of £2.2m have been incurred in the period, which relates to contract changes and the integration of the former Dawson News business. It is expected that further reorganisation costs amounting to circa £2.8m will be incurred in the remainder of the financial year.

On 3 February 2010 The Returns Company (a returns processing business) was sold. In 2009 an impairment charge of £3.1m was recognised to write down the assets and provide for an onerous lease liability. The sale of the business allowed an earlier exit from the lease than was anticipated, resulting in a £0.7m release against the provision.

The intangible assets relating to the acquisition of Bertrams are being amortised over their expected economic lives. The charge for the six months ended 28 February 2010 is £0.5m.

During the six months ended 28 February 2009 the Group invested in a cross-currency forward contract to lower the total cost of borrowing on an after tax cash basis. This contract 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 pre tax loss of £1.5m but a post tax benefit of £0.8m.

Smiths News PLC

Notes to the Condensed Unaudited Interim Financial Statements

For the 6 months to 28 February 2010

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

£m	28 Feb 2010	28 Feb 2009	31 Aug 2009
Present value of the obligation	(336.4)	(262.8)	(338.1)
Fair value of plan assets	363.8	339.0	357.4
Surplus	27.4	76.2	19.3
Amounts not recognised due to asset limit	(27.4)	(76.2)	(19.3)
Retirement benefit obligation recognised in the balance sheet	-	-	-

The Pension Trust had an IAS 19 surplus at 28 February 2010 of £27.4m (Feb 2009: £76.2m). However as the Pension Trust is closed to further accrual, this IAS 19 surplus is not available to be realised by the Group as a reduction of future contributions or through a funding holiday, and as a result the Group has not recognised this 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 2010	6 months to 28 Feb 2009	12 months to 31 Aug 2009
At beginning of period	(338.1)	(320.1)	(320.1)
Current service cost	(0.1)	(0.1)	(0.1)
Interest cost	(8.8)	(10.0)	(19.9)
Actuarial gains/ (losses)	3.6	61.4	(10.4)
Benefits paid	7.0	6.0	12.4
At end of period	(336.4)	(262.8)	(338.1)

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

£m	6 months to 28 Feb 2010	6 months to 28 Feb 2009	12 months to 31 Aug 2009
At beginning of period	357.4	382.5	382.5
Expected return on scheme assets	9.4	10.5	21.0
Actuarial gains/ (losses)	1.1	(50.9)	(39.6)
Contributions	2.9	2.9	5.9
Benefits paid	(7.0)	(6.0)	(12.4)
At end of period	363.8	339.0	357.4

Smiths News PLC

Notes to the Condensed Unaudited Interim Financial Statements

For the 6 months to 28 February 2010

6 Income tax expense

£m	6 months to 28 Feb 2010	6 months to 28 Feb 2009	12 months to 31 Aug 2009
Current tax	4.8	4.2	9.5
Current tax – non-recurring items	(0.5)	(2.3)	(5.0)
Adjustment in respect of prior year UK corporation tax	(1.1)	(2.4)	(2.4)
Total current tax charge/ (credit)	3.2	(0.5)	2.1
Deferred tax – current year	(0.2)	(0.2)	(0.6)
Deferred tax – prior year	-	-	(0.8)
Deferred tax – non-recurring items	-	(0.8)	-
Total tax on profit	3.0	(1.5)	0.7
<i>Effective tax rate</i>	<i>19.6%</i>	<i>(14.0%)</i>	<i>3.8%</i>

The tax rate for the six month period is 19.6% (Feb 2009: (14.0%)) This represents the UK corporation tax rate of 28%, adjusted for provision releases relating to prior years of £1.1m (Feb 2009: £2.4m) and a £0.5m tax credit relating to non-recurring items (Feb 2009: £3.1m). See Note 4 for further detail.

Reconciliation of the tax charge/ (credit)

£m	6 months to 28 Feb 2010	6 months to 28 Feb 2009	12 months to 31 Aug 2009
Profit before tax	15.3	10.7	18.4
Tax on profit at the standard rate of UK corporation tax 28% (2009: 28%)	4.3	3.0	5.2
Permanent differences	0.1	(2.0)	(1.0)
Share schemes	(0.3)	(0.1)	(0.3)
Adjustment in respect of prior year UK deferred tax	-	-	(0.8)
Adjustment in respect of prior year UK corporation tax	(1.1)	(2.4)	(2.4)
Total tax charge/ (credit)	3.0	(1.5)	0.7

Smiths News PLC

Notes to the Condensed Unaudited Interim Financial Statements

For the 6 months to 28 February 2010

7 Dividends

During the six month period to 28 February 2010, the final dividend for the year ended 31 August 2009 of 4.6p (2009: 4.5p) per ordinary share was paid to shareholders.

In addition, the directors are recommending an interim dividend in respect of the period ended 28 February 2010 of 2.4p per ordinary share (2009: 2.2p). This has not been included as a liability in these condensed financial statements. This will be paid on 11 June 2010 to shareholders registered at the close of business on 14 May 2010.

8 Earnings per share

	6 months to 28 Feb 2010	6 months to 28 Feb 2009	12 months to 31 Aug 2009
	£m	£m	£m
Profit for the period	12.3	12.2	17.7
Add back non-recurring items	1.5	1.5	7.1
Adjustment to reflect full year tax rate	(0.8)	(1.3)	-
Profit for the period adjusted for full year tax rate	13.0	12.4	24.8
	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)	(2.9)	(3.5)	(3.4)
Weighted average number of shares in issue for basic earnings per share	180.0	179.4	179.5
Shares issuable (weighted)	0.2	0.3	0.1
Weighted average number of shares in issue for diluted earnings per share	180.2	179.7	179.6
Earnings per share:	Pence	Pence	Pence
Basic	6.8	6.8	9.9
Diluted	6.8	6.8	9.9
Adjusted earnings per share:			
Basic	7.2	6.9	13.8
Diluted	7.2	6.9	13.8

Adjusted earnings per share for the six months ended 28 February 2010 is stated on the basis of underlying profit and a tax rate adjusted to reflect the expected underlying full year tax rate of 25%. The adjusted earnings per share in prior periods is stated on the basis of underlying profit and the actual underlying full year tax rate of 19%.

Smiths News PLC

Notes to the Condensed Unaudited Interim Financial Statements

For the 6 months to 28 February 2010

9 Net cash inflow from operating activities

	6 months to	6 months to	12 months to
£m	28 Feb 2010	28 Feb 2009	31 Aug 2009
Operating profit	16.5	13.1	21.6
Pension funding	(2.9)	(2.9)	(5.7)
Depreciation of property, plant and equipment	3.1	2.2	5.3
Loss on sale of property, plant and equipment	-	0.8	-
Amortisation of intangible assets	1.1	0.7	1.8
Share based payments	0.8	-	1.0
Decrease/ (increase) in inventories	1.0	1.5	(10.9)
Decrease/ (increase) in receivables	7.5	(1.7)	(41.7)
(Decrease)/ increase in payables	(15.3)	(4.5)	57.2
Income tax paid	(1.3)	(2.9)	(4.3)
(Decrease)/ increase in provisions	(3.8)	2.1	7.6
Net cash inflow from operating activities	6.7	8.4	31.9

10 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 (the actual liability of Smiths News PLC in any 12 month period is limited to £5m). The company's share of these leases has an estimated future cumulative gross rental commitment at 28 February 2010 of £23.9m (31 August 2009: £26.6m).

Smiths News PLC

Notes to the Condensed Unaudited Interim Financial Statements

For the 6 months to 28 February 2010

11 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
22 April 2010

Alan Humphrey
Group Finance Director
22 April 2010