

Smiths News

Smiths News PLC
Unaudited Interim Results Announcement
for the six months ended 29 February 2008

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

FINANCIAL HIGHLIGHTS (Unaudited)

- Revenue of £618.4m, up 0.6% (2007: £615.0m)
- Operating profit of £17.9m, up 1.7% (2007: £17.6m)
- Profit before tax of £16.1m, up 5.9% (2007: £15.2m)
- Adjusted earnings per share of 7.2p⁽¹⁾, up 4.3% (2007: 6.9p)
- Earnings per share of 7.9p, down 2.5% (2007: 8.1p)
- Interim dividend of 2.2p, up 4.8% (2007: 2.1p)

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

“The business has continued to perform well, despite challenging market conditions. Revenues and profits have increased and costs have been tightly managed. This performance demonstrates the resilience and strength of the business.

“Our financial performance is underpinned by a service offer that continues to set the benchmark for the industry. Continual improvements remain at the heart of our strategy and we believe that stronger relationships with retailers will provide the business with further opportunities and have invested accordingly. The recent joint venture with Rascal Solutions Ltd boosts our ability in inventory management and is a further step in this direction.

“We have made good progress on new business, winning additional distribution contracts in a number of areas as well as exploring wider opportunities for the business to move into new markets. We have also secured a major contract with HarperCollins for The Returns Company.

“Overall, trading remains in line with expectations.”

⁽¹⁾ Adjusted to reflect the anticipated full year tax rate of 20% for 2008 (2007:20%)

⁽²⁾ Like for like revenue growth excludes newspaper and magazine publisher contract gains

These definitions are applied consistently throughout this Interim Results Announcement

INTERIM MANAGEMENT REPORT

To the members of Smiths News PLC

OPERATIONAL REVIEW

Smiths News continued to make good progress over the first half of the year. Revenues and profitability grew, despite challenging markets. Revenues of £618.4m were up 0.6% on 2007 and profit before tax of £16.1m is up 5.9%.

Newspapers performed well with strong price growth in the quality market. Performance in the magazine market varied by sector. Weekly titles have shown growth and monthly titles continue to decline though the trend has slowed over the period.

The core business continues to pursue its strategy of improving efficiency and service.

Efficiency initiatives throughout the business have delivered savings of £1.7m and we are increasingly confident of exceeding our target of at least offsetting the impact of inflation this year. The investments we have made this year and our further plans for rationalisation in the East Midlands in the second half will provide further cost saving opportunities for 2008 / 2009.

The strategy of improving service and working more closely with retailers and publishers is on track. Our service as measured against a range of key performance indicators has once again improved and a number of independently conducted surveys confirm our position as the wholesaler with the most efficient and effective service offer. Our sales based replenishment system has expanded to encompass more retailers and we have made further investments in our information systems and data warehouse capability to support our drive for competitive advantage through service excellence.

In our core markets we secured additional business from News International in the Peterborough area; from Mail Newspapers in the Derby area, to begin from July; from Newsquest, a regional press publisher, covering the South Wales area; plus, the previously announced News International contract wins in South London and Derby. The annualised sales value of all these contracts is £26m.

In addition, The Returns Company secured a major contract with HarperCollins to process their book returns for all of the UK. The contract for circa 10 million units per year is an important next step for the business.

Our recently announced joint venture with Rascal Solutions Limited is a clear demonstration of our intention to invest in areas that extend our role and bring our skills to new categories and markets.

To support our wider drive for new revenues we have strengthened the executive team with the appointment of a Corporate Development Director. The creation of this role is specifically to identify and develop new revenue opportunities.

In March the Office of Fair Trading announced its intention to publish the result of its review in late summer of this year. We remain focused on our strategy and are well positioned to deal with any potential outcome.

In summary, the business continues to perform well despite challenging conditions. We believe that our strategy of driving service and efficiency in the core business while exploiting the potential for revenue growth in new and existing markets remains appropriate.

Overall, trading remains in line with expectations.

INTERIM MANAGEMENT REPORT (continued)

FINANCIAL REVIEW

REVENUE

	Feb 2008 £m	Feb 2007 £m	Change Fav/(Adv) %	Like for like ⁽²⁾ Fav/(Adv) %
Newspapers	326.6	318.1	2.7%	1.7%
Magazines	265.2	272.4	(2.6%)	(2.6%)
Other	26.6	24.5	8.6%	8.6%
Total revenue	618.4	615.0	0.6%	-

Total revenues were 0.6% above last year with like for like revenues in line with last year.

Newspaper revenues of £326.6m were up 2.7% on last year. This included 1% growth from both a News International contract gain in the Peterborough area and from Regional press gains in Cambridge, Plymouth and Peterborough. This year has again seen the continuing trend of value growth in Newspapers, driven by price increases in the quality market in the first half of the year.

Magazine revenues of £265.2m were down 2.6%, an improved position on the 3.6% decrease in the underlying sales of last year. There has been continued growth in the Weekly market, together with a slowdown in the rate of decline in Monthly magazines. In the first half of the year we have seen publisher price increases in both the Weekly and Monthly markets.

OPERATING PROFIT

	Feb 2008 £m	Feb 2007 £m	Change Fav/(Adv) %
Gross profit	61.7	63.1	(2.2%)
<i>Gross margin</i>	<i>10.0%</i>	<i>10.3%</i>	
Operating costs	(43.8)	(45.5)	3.7%
Operating profit	17.9	17.6	1.7%

Gross margin reduced from 10.3% last year to 10.0%. This is largely attributable to a change in the sales mix, with increased sales of lower margin Newspapers.

Operating costs of £43.8m were 3.7% lower than last year. The lower year on year costs came from a wide range of initiatives across the business that included:

- The consolidation of telephone activity into regional centres, that was previously carried out in every depot
- Depot rationalisations in Stoke and High Wycombe
- Improved fleet and route configuration
- The closure of the defined benefit pension scheme to future accruals in May 2007

The cost reductions contributed to an improvement in operating profit of 1.7% to £17.9m (2007: £17.6m).

INTERIM MANAGEMENT REPORT (continued)

PROFIT BEFORE AND AFTER TAX

	Feb 2008 £m	Feb 2007 £m	Change Fav/(Adv) %
Operating profit	17.9	17.6	1.7%
Finance costs	(1.8)	(2.4)	
Profit before tax	16.1	15.2	5.9%
Taxation	(2.0)	(0.9)	
Profit after tax	14.1	14.3	(1.4%)

Finance costs of £1.8m were £0.6m lower than last year, predominantly due to lower pension finance charges. Profit before tax for 2008 was £16.1m, an increase of 5.9%.

The income tax charge for the first half represents an effective tax rate of 12% (2007: 6%) and is based on the UK Corporation tax rate of 30%, adjusted for a provision release of £2.6m in the period. The prior year charge benefited from a £4.0m provision release. It is anticipated that the full year effective tax rate will be around 20%, which is the same rate as last year. Over time it is expected that the effective tax rate will trend back to the standard rate of corporation tax.

EARNINGS PER SHARE AND DIVIDEND

	Feb 2008	Feb 2007	Change Fav/(Adv) %
Profit after tax (£m)	14.1	14.3	
Adjustment to reflect a 20% tax rate (£m)	(1.2)	(2.1)	
Adjusted profit after tax (£m)	12.9	12.2	5.7%
Weighted average number of shares in issue for basic earnings per share (millions)	179.1	176.9	
Basic EPS	7.9p	8.1p	(2.5%)
Adjusted EPS	7.2p	6.9p	4.3%

Basic EPS for the period is 7.9p (2007:8.1p). The reduction in basic EPS is caused by the lower tax rate in the prior year, due to the higher provision releases. If our 2008 tax charge is adjusted to reflect our anticipated rate for the full year of 20%, adjusted profit after tax is £12.9m, giving an adjusted EPS of 7.2p, an increase of 4.3% on last year's tax adjusted figure. Details of diluted EPS are shown in note 7.

The increase in the weighted average number of shares is due to the allocation of share trust assets in the prior year as a direct result of the demerger.

The Board has declared an interim dividend of 2.2p per ordinary share, which represents a 4.8% increase on last year. The dividend will be paid on 12 June 2008 to shareholders registered at the close of business on 23 May 2008 and will absorb an estimated £3.9m of cash.

INTERIM MANAGEMENT REPORT (continued)

FREE CASH FLOW

	6 months to 29 Feb 2008 £m	6 months to 28 Feb 2007 £m
Profit before interest and tax	17.9	17.6
Depreciation & amortisation	3.0	2.7
Non cash items	0.4	0.5
Working capital	(8.0)	(3.5)
Movement in tax debtor	-	3.0
Capital expenditure	(1.3)	(1.2)
Tax	(2.6)	(4.7)
Net interest paid	(2.1)	(1.6)
Ongoing pension deficit funding	(3.0)	(3.1)
Movement in provisions	(0.1)	-
Free cash flow	4.2	9.7

We generated £4.2m of free cash flow at the half year which is less than last year due to a larger than usual £8.0m outflow of working capital. This outflow largely relates to timing differences in some customer payments around the half-year end. However, we expect working capital to be broadly neutral across the full year.

After payment of last year's final dividend of £7.7m, net debt at 29 February 2008 has increased by £4.4m since 31 August 2007 to £57.1m.

PENSION

The IAS 19 pension surplus on the defined benefit pension scheme has grown to £50.1m at February 2008, from £9.9m at 31 August 2007.

This growth in the surplus has arisen from:

- £12.3m increase in the assets of the scheme
- £27.9m reduction in liabilities due mainly to the widening spread of AA Corporate bonds.

As it is uncertain whether the current pension surplus can ever be realised by the Group, no corresponding asset has been recognised in the balance sheet.

The defined benefit scheme continues to be managed through the Liability Driven Investment policy, which, on an ongoing basis, minimises volatility through the hedging of interest and inflation

In addition, the Company is committed to make annual payments of around £5.4m per annum into the scheme through to 31 August 2011.

INTERIM MANAGEMENT REPORT (continued)

POST BALANCE SHEET EVENTS

Acquisition of 50% of Rascal Solutions Limited

On 20 March 2008 it was announced that a 50% stake had been acquired in Rascal Solutions Limited, a company that provides store level technology and resources to a number of major retailers in the news and magazine category. The total consideration for the acquisition was £3m of which £1m is deferred until 30 October 2008.

Rascal Solutions Limited had net assets of £1.0m at May 2007 and made £0.2m profit before tax in the year to May 2007. We expect the impact of this acquisition, after taking into account the increased finance charges, to be marginally earnings enhancing across the next full year, whilst offering growth within and beyond the newspaper and magazine categories going forward.

Property transaction

In April 2008, sale and leaseback transactions were entered into over the Group's five remaining freehold properties for a combined consideration of £2.3m. This will produce a profit on disposal of circa £1.4m. We expect some of this profit to be offset in the second half of the year by one-off costs relating to a re-organisation in the East Midlands. This reorganisation will help to deliver future cost savings and service improvements.

RISKS

The major potential risk that could have a material impact on the Group's performance over the remaining six months of the financial year relates to the current uncertain economic conditions. A potential slowdown in consumer spending could impact on sales of newspapers and magazines.

Further information on the principal long-term risks and uncertainties of the Group is included on pages 11 and 12 of our latest annual report.

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 29 February 2008

£m	Note	6 months to		Audited
		29 Feb 2008	28 Feb 2007	12 months to 31 Aug 2007
Revenue	3	618.4	615.0	1,232.4
Underlying operating profit		17.9	17.6	36.0
Non-recurring item*		-	-	5.4
Operating profit		17.9	17.6	41.4
Investment revenues		0.4	0.6	0.7
Finance costs		(2.2)	(3.0)	(5.7)
Profit before tax	3	16.1	15.2	36.4
Underlying income tax expense		(2.0)	(0.9)	(6.1)
Income tax on non-recurring item*		-	-	(1.6)
Income tax expense	5	(2.0)	(0.9)	(7.7)
Profit for the period		14.1	14.3	28.7

Earnings per share

Basic	7	7.9p	8.1p	16.1p
Diluted	7	7.8p	7.9p	15.8p

Non-GAAP measures

Adjusted earnings per share				
Basic	7	7.2p	6.9p	16.1p
Diluted	7	7.1p	6.8p	15.8p

* The Non-recurring item is an actuarial curtailment credit on the defined benefit pension scheme. There is an associated deferred tax impact on this.

Smiths News PLC
Condensed Group Balance Sheet (Unaudited)
As at 29 February 2008

£m	Note	29 Feb 2008	28 Feb 2007	Audited 31 Aug 2007
Non-current assets				
Intangible assets		3.8	2.1	3.4
Property, plant and equipment		16.8	18.2	18.2
Deferred tax assets		4.4	9.9	6.0
Interest in associate		0.1	0.2	0.2
Derivative financial instruments		-	0.5	0.9
		25.1	30.9	28.7
Current assets				
Inventories		10.8	11.9	11.9
Available for sale investments		0.5	1.1	1.1
Trade and other receivables		57.6	59.8	53.0
Cash and cash equivalents		3.8	11.0	0.4
		72.7	83.8	66.4
Total assets		97.8	114.7	95.1
Current liabilities				
Trade and other payables		(103.6)	(107.8)	(108.0)
Current tax liabilities		(5.5)	(8.9)	(8.8)
Obligations under finance leases		(1.8)	(1.3)	(1.5)
Bank overdrafts and other borrowings		(12.8)	(22.9)	(5.0)
		(123.7)	(140.9)	(123.3)
Non-current liabilities				
Bank loans and other borrowings		(44.7)	(49.6)	(44.6)
Retirement benefit obligation	4	-	(20.6)	-
Derivative financial instruments		(0.2)	-	-
Deferred tax liabilities		(1.6)	(2.3)	(1.6)
Long-term provisions		(0.4)	(0.7)	(0.5)
Obligations under finance leases		(1.6)	(1.2)	(2.0)
Other non-current liabilities		(0.4)	(0.6)	(0.5)
		(48.9)	(75.0)	(49.2)
Total liabilities		(172.6)	(215.9)	(172.5)
Total net liabilities		(74.8)	(101.2)	(77.4)
Equity				
Called up share capital	9	9.1	9.1	9.1
ESOP reserve	9	(3.2)	(3.7)	(3.7)
Other reserve	9	(280.1)	(280.1)	(280.1)
Hedging reserve	9	(0.2)	0.5	0.9
Retained earnings	9	199.6	173.0	196.4
Total deficit		(74.8)	(101.2)	(77.4)

Smiths News PLC

Condensed Group Cash Flow Statement *(Unaudited)*

For the 6 months to 29 February 2008

£m	Note	6 months to		Audited
		29 Feb 2008	28 Feb 2007	12 months to 31 Aug 2007
Net cash from / (used in) operating activities	8	7.6	(12.5)	9.0
Investing activities				
Interest received		0.1	0.6	0.7
Loan repaid by associate		-	0.1	0.1
Purchase of property, plant and equipment		(0.3)	(1.2)	(1.4)
Purchase of intangible assets		(1.0)	-	(1.8)
Net cash used in investing activities		(1.2)	(0.5)	(2.4)
Financing activities				
Interest paid		(2.2)	(2.2)	(4.5)
Dividend paid		(7.7)	(7.1)	(10.9)
Repayments of obligations under finance leases		(0.9)	(0.4)	(1.6)
Increase in short term borrowings		7.8	22.9	-
Net cash (used in) / from financing activities		(3.0)	13.2	(17.0)
Net increase / (decrease) in cash and cash equivalents		3.4	0.2	(10.4)
Opening net cash and cash equivalents		0.4	10.8	10.8
Closing net cash and cash equivalents		3.8	11.0	0.4

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

For the 6 months to 29 February 2008

£m	Note	6 months to		Audited
		29 Feb 2008	28 Feb 2007	12 months to 31 Aug 2007
(Loss) / gain on cash flow hedges		(1.1)	0.5	0.9
Actuarial gains on defined benefit pension scheme	4	36.9	1.2	23.5
Effect of asset limit on defined benefit pension scheme	4	(40.2)	-	(9.9)
UK deferred tax attributable to defined benefit pension scheme liabilities		(0.7)	(6.4)	(8.2)
UK current tax attributable to the additional defined benefit pension scheme contributions		1.8	2.0	3.9
Net (expense) / income recognised directly in equity		(3.3)	(2.7)	10.2
Profit for the period		14.1	14.3	28.7
Total recognised income for the period	9	10.8	11.6	38.9

Smiths News PLC

Notes to the Condensed Unaudited Interim Financial Statements

For the 6 months to 29 February 2008

1 General information

These Interim Financial Statements are unaudited and not reviewed.

The information for the year ended 31 August 2007 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 and did not contain statements under section 237(2) or (3) of the Companies Act 1985.

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 2007.

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 has no significant impact within the Newspaper and Magazine markets.

4 Retirement benefit obligation

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

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

£m	At 29 Feb 2008	At 28 Feb 2007	At 31 Aug 2007
Present value of the obligation	(283.4)	(343.4)	(311.3)
Fair value of plan assets	333.5	322.9	321.2
Surplus / (deficit) in the pension scheme	50.1	(20.5)	9.9
Amounts not recognised due to asset limit	(50.1)	-	(9.9)
Retirement medical benefit liabilities	-	(0.1)	-
Retirement benefit obligation recognised in balance sheet	-	(20.6)	-

As it is uncertain whether the current pension surplus can ever be realised by the Group an asset has not been recognised in the balance sheet at 29 February 2008 and 31 August 2007.

Smiths News PLC

Notes to the Condensed Unaudited Interim Financial Statements

For the 6 months to 29 February 2008

4 Retirement benefit obligation - continued

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

£m	6 months to		12 months to
	29 Feb 2008	28 Feb 2007	31 Aug 2007
At beginning of period	(311.3)	(334.0)	(334.0)
Current service cost	(0.1)	(1.5)	(2.1)
Interest cost	(8.6)	(8.5)	(16.9)
Actuarial gains / (losses)	30.9	(5.4)	21.9
Benefits paid	5.7	6.0	14.4
Plan curtailment	-	-	5.4
At end of period	(283.4)	(343.4)	(311.3)

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

£m	6 months to		12 months to
	29 Feb 2008	28 Feb 2007	31 Aug 2007
At beginning of period	321.2	285.0	285.0
Expected return on scheme assets	9.0	7.7	15.7
Actuarial gains	6.0	6.6	1.6
Contributions	3.0	29.6	33.3
Benefits paid	(5.7)	(6.0)	(14.4)
At end of period	333.5	322.9	321.2

5 Income tax expense

The income tax rate for the six-month period is 12% (six months ended 28 February 2007: 6%; Year ended 31 August 2007: 21%). This represents the UK Corporation tax rate of 30%, adjusted for a provision release of £2.6m (six months ended 28 February 2007: £4.0m; Year ended 31 August 2007: £4.0m).

6 Dividends

During the interim period, a dividend of 4.3p (2007: 4.0p) per share was paid to shareholders.

In addition, the directors are recommending an interim dividend in respect of the period ended 29 February 2008 of 2.2p per ordinary share (2007: 2.1p). This will be paid on 12 June 2008 to shareholders registered at the close of business on 23 May 2008 and will absorb an estimated £3.9m of shareholders funds.

Smiths News PLC

Notes to the Condensed Unaudited Interim Financial Statements

For the 6 months to 29 February 2008

7 Earnings per share

	6 months to 29 Feb 2008	6 months to 28 Feb 2007	12 months to 31 Aug 2007
	£m	£m	£m
Profit for the period	14.1	14.3	28.7
Adjustment to reflect a 20% tax rate	(1.2)	(2.1)	-
Adjusted profit for the period	12.9	12.2	28.7
	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)	(3.8)	(6.0)	(5.1)
Weighted average number of shares in issue for basic earnings per share	179.1	176.9	177.8
Shares issuable (weighted)	1.8	3.4	3.7
Weighted average number of shares in issue for diluted earnings per share	180.9	180.3	181.5
	Pence	Pence	Pence
Earnings per share:			
Basic	7.9	8.1	16.1
Diluted	7.8	7.9	15.8
Adjusted earnings per share:			
Basic	7.2	6.9	16.1
Diluted	7.1	6.8	15.8

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Notes to the Condensed Unaudited Interim Financial Statements

For the 6 months to 29 February 2008

8 Net cash inflow / (outflow) from operating activities

£m	6 months to		12 months to
	29 Feb 2008	28 Feb 2007	31 Aug 2007
Operating profit	17.9	17.6	41.4
Adjustment for pension funding	(3.0)	(3.1)	(11.6)
Depreciation of property, plant and equipment	2.4	2.2	4.5
Loss on sale of property, plant and equipment	-	-	0.1
Amortisation of intangible assets	0.6	0.5	1.0
Non cash items	0.4	0.5	0.5
Decrease in inventories	1.1	0.3	0.3
(Increase) / decrease in receivables	(4.6)	10.2	17.0
Decrease in payables	(4.5)	(11.0)	(10.9)
Income tax paid	(2.6)	(4.7)	(8.1)
Decrease in provisions	(0.1)	-	(0.2)
Net cash inflow from operating activities before one-off items	7.6	12.5	34.0
One-off pension funding payment	-	(25.0)	(25.0)
Net cash inflow/ (outflow) from operating activities	7.6	(12.5)	9.0

Smiths News PLC

Notes to the Condensed Unaudited Interim Financial Statements

For the 6 months to 29 February 2008

9 Reconciliation of movements in equity

£m	Share Capital	Other Reserve	ESOP Reserve	Translation & Hedging Reserve	Retained Earnings	Total
Balance at 1 September 2006	9.1	(280.1)	(7.1)	-	170.8	(107.3)
Total recognised income and expense for the period	-	-	-	0.5	11.1	11.6
Dividends paid	-	-	-	-	(7.1)	(7.1)
Employee share schemes	-	-	2.6	-	(2.6)	-
Recognition of share based payments	-	-	-	-	0.5	0.5
Transfer to available for sale investments	-	-	0.8	-	0.3	1.1
Balance at 28 February 2007	9.1	(280.1)	(3.7)	0.5	173.0	(101.2)
Total recognised income and expense for the period	-	-	-	0.4	26.9	27.3
Dividends paid	-	-	-	-	(3.8)	(3.8)
Recognition of share based payments	-	-	-	-	0.3	0.3
Balance at 31 August 2007	9.1	(280.1)	(3.7)	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	-	-	-	-	0.1	0.1
Available for sale investments	-	-	-	-	(0.6)	(0.6)
Balance at 29 February 2008	9.1	(280.1)	(3.2)	(0.2)	199.6	(74.8)

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 that 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 29 February 2008 of £37.6m (At 31 August 2007: £40.9m).

11 Events after the balance sheet date

On 20 March 2008 the Group acquired a 50% interest in Rascal Solutions Ltd. Total cash consideration was £3m, of which £1m is deferred until 30 October 2008. Directly attributable costs were £0.4m. Given that we did not complete until 20 March 2008, certain disclosures required by IFRS 3 'Business Combinations' have not been made as it has not been practical to do so.

In April 2008, sale and leaseback transactions were entered into over the Group's five remaining freehold properties for a combined consideration of £2.3m. This will produce a profit on disposal of circa £1.4m.

Smiths News PLC

Notes to the Condensed Unaudited Interim Financial Statements

For the 6 months to 29 February 2008

12 Related party transactions

At the balance sheet date there had been no material changes in the related party transactions described in the last annual report.

On 20 March 2008 the Group acquired a 50% interest in Rascal Solutions Ltd, which will be a related party.

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
Chief Executive
24 April 2008

Alan Humphrey
Finance Director
24 April 2008