Smiths News PLC

Smiths News PLC
Unaudited Interim Results for the six months ended 28 February 2011

Smiths News PLC (or “the Group”), the UK’s leading wholesaler of newspapers and magazines and a leading wholesaler of books, is pleased to announce its interim results for the six months ended 28 February 2011.

Financial highlights:

- Revenue of £872.3m, down 5.2% (2010: £919.8m)
- Underlying(1) profit before tax of £19.2m, up 11.0% (2010: £17.3m)
- Profit before tax £18.7m, up 22.2% (2010: £15.3m)
- Underlying earnings per share(2) of 7.8p, up 8.3% (2010: 7.2p)
- Interim dividend of 2.6p, up 8.3% (2010: 2.4p)
- Positive free cash flow(3) of £2.5m, (2010: £4.1m)

Operating highlights:

- Outstanding performance in the delivery of operational efficiencies
  - £11m generated in H1, on track to deliver £20m for the full year
  - 3 year efficiency target of £20m increased to £30m
- Regional Press gains continue to gather momentum
  - £7m of new contract wins secured
  - Largest UK distributor of Regional Press
- Continued growth in International book sales up 28% in H1
  - US sales up by 50% with France, Germany and Scandinavia up 25%
- Diversification plans progressing well
  - £70m of funds available to underpin growth aspirations
  - Preferred sectors now identified with activity accelerating over the coming months

Mark Cashmore, Group Chief Executive commented:

“Our operational progress over the last six months has been pleasing. Despite a number of challenges across the Group’s markets, we have delivered a solid financial performance, increasing our confidence in achieving the full year consensus and underpinning our commitment to a progressive dividend policy.

“The corporate development strategy is progressing well and we have identified clear acquisition targets in our preferred sectors. I look forward to being able to update the market further later in the year.”

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A meeting for analysts will be held at the office of Buchanan Communications, 45 Moorfields, London, EC2Y 9AE on 13 April commencing at 9.30am.

Smiths News PLC’s Interim Results 2011 are available at www.smithsnews.co.uk

13 April 2011

Financial Results:

	6 months to Feb 2011 Underlying[(1)]	6 months to Feb 2010 Underlying[(1)]	Change Fav / (Adv)	**6 months to Feb 2011 Statutory**	6 months to Feb 2010 Statutory	Change Fav / (Adv)
Revenue	**£872.3m**	**£919.8m**	(5.2%)	**£872.3m**	**£919.8m**	(5.2%)
Profit before tax	**£19.2m**	**£17.3m**	11.0%	**£18.7m**	**£15.3m**	22.2%
Earnings per share	**7.8p[(2)]**	**7.2p[(2)]**	8.3%	**7.6p**	**6.8p**	11.8%
Interim dividend	**2.6p**	**2.4p**	8.3%	**2.6p**	**2.4p**	8.3%
Free cash flow[(3)]	**£2.5m**	**£4.1m**	(39.0%)	**£2.5m**	**£4.1m**	(39.0%)

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

(1) Underlying 2011 and 2010 results exclude non-recurring items and amortisation of acquired intangibles.

(2) Underlying earnings per share for 2011 and 2010 are 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, magazine and book contract gains and losses during the year, and the annualised impact of gains and losses 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 Group operates from 55 distribution centres across England and Wales, and employs 5,100 staff.

INTERIM MANAGEMENT REPORT

OPERATING REVIEW

INTRODUCTION

We are pleased to report another solid set of half-year results. The Group continues to deliver profit growth whilst making strategic progress across our businesses.

The News Distribution business continues to generate strong profits and positive cashflows with year-on-year improvements driven by the outstanding progress of our cost and efficiency programme. The Group has already secured £11m of savings in the first half and an additional £9m is expected by our financial year-end. As a result we have increased our three-year efficiency target from £20m to £30m.

Bertrams continues to make progress in the context of a more challenging UK book market. Underlying profits are in line with the prior year, with action taken on costs to help offset the volume declines. Sales through UK wholesale operations were ahead of the market trend, and sales in international markets were up by 28% in the period.

Group underlying profit before tax increased by 11% to £19.2m from revenues of £872.3m (down 5.2%). We are increasing the interim dividend by 8% to 2.6p, highlighting our continued confidence in the Group's strong cash generation and future prospects.

MARKETS

The newspaper market, whilst challenging, is showing resilience; sales are down 3% on a like-for-like basis, with an improving trend over the last 12 months. A number of cover price rises since October have helped maintain our revenue and margin performance and will flow through for the remainder of the year.

The magazine market has fared less well with total sales down 9.9% on a like-for-like basis, impacted by disappointing sales from partworks and one shots and the one-off impact of the World Cup last year. Excluding these influences, like-for-like sales of weekly and monthly titles are down by 7.6%. Looking ahead, the Royal Wedding should boost sales as publishers look to capitalise on this one-off event. In 2012, the European Football Championships and the Olympic Games should see further opportunities to generate additional revenue not dissimilar to the World Cup in 2010.

Sales of books to UK consumers over the last six months slowed, partly impacted by bad weather in December affecting the retailers' seasonal peak. The international books market conversely remains buoyant, with sales up 28% and representing an area of significant growth. Whilst sales of books to retailers have been generally resilient within Bertrams, public sector spending cuts and the uncertainty over public library budgets resulted in the library services division being down 25%, which has distorted a credible performance for the business.

SERVICE AND EFFICIENCY

As stated in our preliminary results in October 2010, delivering operational efficiencies is a core competency for the Group. Our original plan was to achieve £20m of efficiency improvements over the next three years. Following outstanding progress we are significantly ahead of those targets. In the first six months of the current financial year we have achieved £11m of savings and we expect to generate a further £9m by the year end increasing our three year target from £20m to £30m. These efficiencies will fully compensate for tougher trading conditions.

Central to the efficiency programme are the network and process changes which followed the contract integration of 2010. Since October we have continued to drive this initiative, closing our North London depot, merging our Northampton magazines hub into Peterborough and announcing plans to close our Newton Abbot depot. In addition, our flexible contractor base has allowed the

Group to adjust staff and distribution resources swiftly in response to the lower than anticipated sales volumes.

The Group continues to explore further cost and efficiency opportunities. To this end, we remain confident of generating a further £10m of efficiency improvements over the next two years.

REGIONAL PRESS

Smiths News continues to win new Regional Press business, securing an additional £7m of revenue from Northcliffe in December. We are currently in discussion with a number of other publishers and remain confident of securing additional revenue, building on our market leading position.

BERTRAMS

Bertrams' performance has shown resilience in the context of a softening of the UK books market and the impact of public sector budget cuts. Despite the more challenging market conditions we believe Bertrams continues to offer opportunities for long term growth.

In the international market, Bertrams continues to increase sales with growth of 28% in the period. Sales to the established markets of France, Germany and Scandinavia grew by about 25%, with the US increasing 50% and sales to Australasia doubling. In addition, Bertrams started trading with 11 new countries in the period and it is clear that there is widespread growth in demand for English Language books from overseas markets.

In the Public Library market it is still unclear if the sharp decline in sales is a reaction to the recent uncertainty or fully representative of a longer term trend. Nonetheless, there remain substantial opportunities for Bertram Library Services (BLS) to grow sales and market share. We estimate there will be £22m of contracts available for competitive tenders in 2012 of which BLS currently holds less than 8%. With library consortia undoubtedly focused on value, service, and choice, we believe BLS should be well placed to increase its share.

CORPORATE DEVELOPMENT

The corporate development strategy continues to progress as we seek to make acquisitions that would add value to the Group's existing businesses and open new opportunities in the specialist distribution markets. We believe this large and fragmented sector is well suited to our core skill set of efficiently servicing a diverse range of customers and suppliers.

Since October 2010 we have completed a thorough review of those sectors with long-term revenue growth prospects. The research has confirmed these markets are a good match for our business with clear opportunities to add value. Our preferred sectors include a number of realistic targets and we will be accelerating this process over the coming months.

We do however recognise there can be no certainty of immediate success and will continue to review further opportunities across the existing Group businesses and in specialist distribution markets.

Underpinning our diversification strategy is our £135m bank facility secured in 2010, providing up to £70m of acquisition funding.

OUTLOOK

The Group has delivered a solid performance in the first half with our efficiency initiatives more than off-setting sales declines. Our corporate development strategy is now gaining real momentum towards its goal of creating a platform for further growth. However, we remain cautious about the impact of the current economic climate on our base businesses and will continue to plan accordingly.

As a result the Board confirms the Group is firmly on track to deliver profits in line with full year expectations.

INTERIM MANAGEMENT REPORT (continued)

FINANCIAL REVIEW

GROUP INCOME STATEMENT EXTRACTS – EXCLUDING NON-RECURRING ITEMS

£m	Total Underlying Feb 2011	Total Underlying Feb 2010	Change Fav/(Adv)
Revenue	872.3	919.8	(5.2%)
Gross profit	80.8	89.3	(9.5%)
Operating costs	(60.1)	(70.8)	15.1%
Operating profit	**20.7**	**18.5**	11.9%
Net finance costs	(1.5)	(1.2)	(25.0%)
Profit before tax	**19.2**	**17.3**	11.0%
Taxation	(5.1)	(3.5)	(45.7%)
Tax rate	*27%*	*20%*	-
Profit after tax	**14.1**	**13.8**	2.2%
Earnings per share	**7.8p**	**7.2p**	8.3%
Dividend per share	**2.6p**	**2.4p**	8.3%

For the Group as a whole, total revenues were broadly in-line with our expectations at £872m, a reduction of 5.2%.

The continuing determined focus on costs helped to support the strong underlying group operating profit performance, which increased by 11.9% to £20.7m.

Finance costs of £1.5m were up £0.3m, as a result of higher margins following the debt refinancing in August 2010.

Pre-tax profits have increased by 11.0% to £19.2m.

The tax rate of 27% was in-line with the UK statutory corporation tax rate, resulting in the post tax profit of £14.1m. The tax charge for the six months to February 2010 benefitted from a prior period adjustment.

The Board have approved an interim dividend of 2.6p, up 8.3% on last year, reflecting confidence in the future prospects of the Group. The growth in the interim dividend demonstrates the Group's progressive dividend policy, which means ongoing profit growth will be reflected in future dividend growth.

The interim dividend will be paid on 10 June 2011 to shareholders on the register at the close of business on 13 May 2011.

SMITHS NEWS INCOME STATEMENT

£m	Total Underlying Feb 2011	Total Underlying Feb 2010	Change Fav/(Adv)	LFL[5]
Newspapers	462.9	471.6	(1.8%)	(3.0%)
Magazines	295.6	334.7	(11.7%)	(9.9%)
Other	40.3	37.7	6.9%	-
Total revenue	**798.8**	**844.0**	(5.4%)	-
Gross profit	68.8	75.6	(9.0%)	
Operating costs	(50.5)	(59.5)	15.1%	
Operating profit	**18.3**	**16.1**	13.7%	
Gross margin	8.6%	9.0%	(35 bps)	
Cost ratio	(6.3%)	(7.0%)	75 bps	
Operating margin	2.3%	1.9%	40 bps	

Smiths News total revenues were down 5.4% to £799m. This run-rate was in-line with the Group's last trading update in January 2011.

Newspaper like-for-like revenues were down 3.0% with volume declines continuing to be softened by cover price increases and a reduction in year-on-year promotional discounts.

Magazine like-for-like revenues were down 9.9% with partworks and one-shots driving down the underlying run rates in weeklies and monthlies.

Gross margin was down 35bps as a result of the shift in newspapers and magazines revenues mix as well as the dilutive impact of lower promotional sales.

Significant progress has been made so far in this financial year against the Group's three year cost savings target. Across the network and in central locations Smiths News delivered cost and efficiency savings of £9m.

The closure of four depots announced in the prior year plus the annualisation of savings made on depots closed before 31 August 2010 as part of our continuing network strategy have resulted in savings of £3m. In the continuing business £4m has been saved, predominantly due to staffing efficiencies from rationalised processes. Closure of the Dawson head office and further Smiths News central savings contributed the remaining £2m.

Operating profits were up 13.7% at £18.3m.

BERTRAMS INCOME STATEMENT

£m	Total Underlying Feb 2011	Total Underlying Feb 2010	Change Fav/ (Adv)	LFL[5]
Revenue	73.5	75.8	(3.0%)	(3.0%)
Gross profit	12.0	13.7	(12.4%)	
Operating costs	(9.6)	(11.3)	15.0%	
Operating profit	**2.4**	**2.4**	-	
Gross margin	16.3%	18.1%	(175 bps)	
Cost ratio	(13.1%)	(14.9%)	185 bps	
Operating margin	3.3%	3.2%	10 bps	

Bertrams revenues were down 3.0% at £73.5m, this run rate was also in line with the Group's last trading update in January 2011.

Bertrams UK book wholesaling traded slightly down year on year, marginally above the market which has been more challenging this year than last. Strong international growth has been more than offset by a weak library services performance which resulted in a 3.0% decline in year on year revenues.

Gross margin was 175bps down year on year resulting from investment to hold market share in a tough trading environment as well as a mix impact from the decline in higher margin library services.

Bertrams has worked hard to take out costs at a faster pace than sales declines making savings across the business of £1.7m, mostly in flexible staffing in the warehouse.

Operating profits were in line with the same period last year at £2.4m.

After the period end, we identified a customer account that had been fraudulently controlled by an employee, who has subsequently been dismissed. The total account balance is £1.9m and after obtaining external advice we expect the loss to be fully recoverable under our insurance policies.

While investigations are on-going, at this stage we remain confident the fraud was contained to a single employee and that there is no further financial exposure in relation to this issue.

NON-RECURRING AND OTHER ITEMS

£m

	Feb 2011	Feb 2010
Reorganisation costs	-	(2.2)
The Returns Company	-	0.7
Amortisation of acquired intangibles	(0.5)	(0.5)
Loss before tax	**(0.5)**	**(2.0)**
Taxation	0.1	0.5
Loss after tax	**(0.4)**	**(1.5)**

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 2011 is £0.5m (Feb 2010: £0.5m).

During the six months ended 28 February 2010 the Group incurred reorganisation costs of £2.2m and released unutilised provisions of £0.7m following the sale of The Returns Company.

We expect to utilise approximately half of the £5m of non-recurring reorganisation costs highlighted at last years preliminary announcements in the second half of the year.

FREE CASH FLOW

£m	6 months Feb 2011	6 months Feb 2010
Underlying profit before interest and tax	20.7	18.5
Depreciation & amortisation	3.6	3.6
Underlying EBITDA	24.3	22.1
Working capital	(17.5)	(6.8)
Capital expenditure	(1.5)	(4.3)
Net interest paid	(1.5)	(1.4)
Taxation	1.3	(2.5)
Ongoing pension deficit funding	(3.1)	(2.9)
Other movements	0.5	(0.1)
Free cash flow(3)	**2.5**	**4.1**

Free cash of £2.5m was generated in the six months ended 28 February 2011.

In addition to historic first half working capital outflows of circa £7m there have also been a number of adverse timing movements in net stock and supplier creditors, which will reverse in the remainder of the year. The Group remains on track to meet the full year free cash flow expectation of at least £20m.

NET DEBT

£m	6 months Feb 2011	6 months Feb 2010
Opening net debt(6)	**(48.0)**	**(49.5)**
Free cash flow	2.5	4.1
Dividend paid	(9.1)	(8.3)
Non-recurring items	(1.7)	(4.0)
Finance leases	(0.7)	0.4
Closing net debt(6)	**(57.0)**	**(57.3)**

The movement in net debt from 31 August 2010 was broadly in-line with last year's first half movement, closing at £57.0m. With the dividend payment higher in the first half net debt is always higher at the interim stage than at year end.

Net debt is underpinned by the Group's finance facility of £135m which matures in November 2014.

PENSION

The defined benefit pension scheme had an IAS 19 surplus at 28 February 2011 of £31.9m (Feb 2010: £27.4m). During the period the liabilities of the scheme reduced by £15.7m following the adoption of CPI to value deferred members benefits. This impact was more than offset by a reduction in the scheme assets, principally as a result of the mark to market of certain investments. 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. The Group has committed to make annual payments of £5.8m into the scheme over the next ten years.

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 historic results. The directors consider that the principal risks and uncertainties, listed in the annual report for the year ended 31 August 2010, are still relevant.

A detailed explanation of the risks and uncertainties, together with mitigations, summarised below can be found on pages 21 to 23 of the annual report.

Consumer confidence and spending

The general economic environment remains uncertain, affecting consumer confidence. In addition the planned Government spending cuts and changes to personal benefits, together with the increase in VAT to 20% in January 2011, could have a further negative impact. Reduced confidence may lead to a squeeze on discretionary spending including the sales of newspapers, magazines and books.

Consumer confidence and spending has been affected by the impact of the economic downturn and the uncertainty over public sector budgets; we believe this has been a factor in reduced sales. Nonetheless the reductions in newspapers and magazine sales remain within our range of estimates.

Impact of passive sales

Following guidance issued by the Office of Fair Trading, the new contracts awarded by magazine publishers make allowance for sales outside of the designated territories in response to unsolicited requests from retailers (passive sales). Previously contracts could be more restrictive, generally being granted on the basis of 'absolute territorial exclusivity'. The new arrangements could create an incentive for retailers to seek alternative suppliers, with a consequent impact on sales, margins and costs.

The incidence of passive sales request remains very low, indicating that retailers are not actively pursuing alternative suppliers. Where passive sales requests have occurred Smiths News has seen a net gain in sales.

Reduced retail sales impacting on newspaper and magazine publishers

A significant reduction in sales of newspapers and magazines over time would have an adverse effect on revenues and lower circulations could also undermine the business model of publishers, leading to title closures.

Sales in the period remain in our range of estimates. Whilst some magazine titles have closed, this is normal for what is a vibrant and diverse category. In March 2011 The Daily Sport newspaper ceased trading, however the launch of i newspaper in October demonstrated there is still room for innovation and investment in the newspaper market.

Contract renewal

At the time of contract renewal, publishers could seek alternative routes to market in some of Smiths News' current territories, which would result in lower sales. Alternatively, there remains the risk of contract renewals at lower margin.

There have been no newspaper or magazine contract renewals over the last six months. Smiths News has long term contracts in place with all the major publishers. The Group remains well placed to renegotiate its contracts as and when they come up for renewal.

Digital media

The recent launch of book readers such as the ipad and Amazon Kindle, together with the Times' decision to charge for on-line subscriptions has increased awareness of digital publishing. This technology creates the potential for consumers to move from traditional printed media to digital alternatives, which could have an adverse effect on sales and growth opportunities.

Despite increased sales of ipads and similar tablet readers there is no evidence of a widespread migration to digital formats as a replacement for mass market printed media.

Impact of public spending cuts on library purchasing

The Government's stated plans to reduce spending in the public sector could have a detrimental impact on Bertram Library Services, reducing the value of ongoing expenditure and future contracts.

Sales to public libraries are significantly below expectations in the period; however, it is too early to determine if the reduction is representative of a long term trend or a temporary reaction to budget uncertainty. There are a number of new tender opportunities for Bertram Library Services over the next 12 months.

Property and lease commitments

Potential liabilities 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 Group's share of these leases has an estimated future cumulative gross rental commitment at 28 February 2011 of £18.8m (31 August 2010: £21.2m).

There has been no material change during the period. The group continues to monitor its property and lease commitments on an on-going basis.

Financial exposure to key retailers and publishers

The failure of one or more of the Group's major retailers or publishers could affect the Group's profitability and cash flows.

The Group's largest credit risk remains with some of the UK's major retailers who have strong credit ratings. Payments are monitored carefully and the Group has established a strong record of cash collection from its customer base.

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 2011

£m	Note	6 months to 28 Feb 2011			6 months to 28 Feb 2010			Audited 12 months to 31 Aug 2010		
		Under-lying	Non-recurring and other items	**Total**	Under-lying	Non-recurring and other items	**Total**	Under-lying	Non-recurring and other items	**Total**
Revenue	3	**872.3**	**-**	**872.3**	**919.8**	**-**	**919.8**	**1,829.6**	**-**	**1,829.6**
Operating profit	3	**20.7**	**(0.5)**	**20.2**	**18.5**	**(2.0)**	**16.5**	**37.1**	**(6.9)**	**30.2**
Investment revenues		0.6	-	**0.6**	0.3	-	**0.3**	**1.1**	**-**	**1.1**
Finance costs		(2.1)	-	**(2.1)**	(1.5)	-	**(1.5)**	**(3.2)**	**-**	**(3.2)**
Profit before tax		**19.2**	**(0.5)**	**18.7**	**17.3**	**(2.0)**	**15.3**	**35.0**	**(6.9)**	**28.1**
Taxation	6	(5.1)	0.1	**(5.0)**	(3.5)	0.5	**(3.0)**	**(8.6)**	**1.7**	**(6.9)**
Profit for the period		**14.1**	**(0.4)**	**13.7**	**13.8**	**(1.5)**	**12.3**	**26.4**	**(5.2)**	**21.2**

Earnings per share				
Basic	*8*	*7.6p*	*6.8p*	*11.7p*
Diluted	*8*	*7.4p*	*6.8p*	*11.5p*

Non-GAAP measures				
Underlying earnings per share(2)				
Basic	*8*	*7.8p*	*7.2p*	*14.6p*
Diluted	*8*	*7.7p*	*7.2p*	*14.4p*

Equity dividends per share	*7*	*2.6p*	*2.4p*	*7.4p*

Smiths News PLC

Condensed Consolidated Statement of Comprehensive Income (Unaudited)

For the 6 months to 28 February 2011

£m	Note	6 months to 28 Feb 2011	6 months to 28 Feb 2010	Audited 12 months to 31 Aug 2010
Other comprehensive income:				
Gains on cash flow hedges		0.2	0.3	0.9
Actuarial (losses)/ gains on defined benefit pension scheme		(12.8)	4.7	14.5
Effect of asset limit on defined benefit pension scheme		9.3	(8.1)	(21.9)
Tax relating to components of other comprehensive income		1.0	1.1	2.1
Other comprehensive income for the period		**(2.3)**	**(2.0)**	**(4.4)**
Profit for the period		13.7	12.3	21.2
Total comprehensive income for the period		**11.4**	**10.3**	**16.8**

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

Smiths News PLC
Condensed Consolidated Balance Sheet (Unaudited)
As at 28 February 2011

£m	Note	At 28 Feb 2011	At 28 Feb 2010	Audited 31 Aug 2010
Non-current assets				
Intangible assets		11.3	12.6	12.7
Property, plant and equipment		19.6	21.6	21.0
Interest in joint venture and associate		3.7	3.5	3.7
Deferred tax assets		1.5	2.8	1.6
		36.1	**40.5**	**39.0**
Current assets				
Inventories		33.3	30.1	38.1
Trade and other receivables		105.2	107.2	99.2
Cash and cash equivalents		0.1	5.4	4.0
Assets held for sale		0.9	-	0.9
		139.5	**142.7**	**142.2**
Total assets		**175.6**	**183.2**	**181.2**
Current liabilities				
Trade and other payables		(165.4)	(176.1)	(181.7)
Current tax liabilities		(5.3)	(1.4)	-
Obligations under finance leases		(1.3)	(1.5)	(1.6)
Bank overdrafts and other borrowings		(15.7)	(24.1)	(48.8)
Provisions		(2.3)	(1.2)	(5.0)
Derivative financial instruments		(0.3)	(0.1)	(0.5)
		(190.3)	**(204.4)**	**(237.6)**
Non-current liabilities				
Bank loans and other borrowings		(38.4)	(34.6)	-
Retirement benefit obligation	5	-	-	-
Deferred tax liabilities		(1.5)	(1.7)	(1.9)
Long-term provisions		(2.6)	(3.7)	(1.9)
Obligations under finance leases		(1.7)	(2.5)	(1.6)
Derivative financial instruments		-	(1.0)	-
Other non-current liabilities		(0.6)	(0.9)	(0.6)
Total liabilities		**(235.1)**	**(248.8)**	**(243.6)**
Total net liabilities		**(59.5)**	**(65.6)**	**(62.4)**

Smiths News PLC
Condensed Consolidated Balance Sheet (Unaudited) - Continued
As at 28 February 2011

£m	Note	At 28 Feb 2011	At 28 Feb 2010	Audited 31 Aug 2010
Equity				
Called up share capital		9.2	9.1	9.2
Share Premium Account		0.4	-	0.4
ESOP reserve		(2.2)	(2.5)	(2.4)
Other reserve		(280.1)	(280.1)	(280.1)
Hedging reserve		(0.3)	(1.1)	(0.5)
Retained earnings		213.5	209.0	211.0
Total equity		**(59.5)**	**(65.6)**	**(62.4)**

Smiths News PLC

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the 6 months to 28 February 2011

£m	Share Capital	Share Premium Account	ESOP Reserve	Other[1] Reserve	Hedging Reserve	Retained Earnings	Total
Balance at 1 September 2009	**9.1**	**-**	**(3.4)**	**(280.1)**	**(1.4)**	**207.4**	**(68.4)**
Profit for the period	-	-	-	-	-	12.3	12.3
Gain on cash flow hedges	-	-	-	-	0.3	-	0.3
Actuarial gain on defined benefit pension scheme	-	-	-	-	-	4.7	4.7
Effect of asset limit on defined benefit pension scheme	-	-	-	-	-	(8.1)	(8.1)
Tax relating to components of other comprehensive income	-	-	-	-	-	1.1	1.1
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)**
Profit for the period	-	-	-	-	-	8.9	8.9
Gain on cash flow hedges	-	-	-	-	0.6	-	0.6
Actuarial gain on defined benefit pension scheme	-	-	-	-	-	9.8	9.8
Effect of asset limit on defined benefit pension scheme	-	-	-	-	-	(13.8)	(13.8)
Tax relating to components of other comprehensive income	-	-	-	-	-	1.0	1.0
Total comprehensive income for the period	-	-	-	-	0.6	5.9	6.5
Issue of share capital	0.1	0.4	-	-	-	-	0.5
Dividends paid	-	-	-	-	-	(4.3)	(4.3)
Employee share schemes	-	-	0.1	-	-	(0.1)	-
Recognition of share based payments	-	-	-	-	-	0.5	0.5
Balance at 31 August 2010	**9.2**	**0.4**	**(2.4)**	**(280.1)**	**(0.5)**	**211.0**	**(62.4)**

Smiths News PLC

Condensed Consolidated Statement of Changes in Equity (Unaudited) - Continued
For the 6 months to 28 February 2011

£m	Share Capital	Share Premium Account	ESOP Reserve	Other[1] Reserve	Hedging Reserve	Retained Earnings	Total
Balance at 1 September 2010	**9.2**	**0.4**	**(2.4)**	**(280.1)**	**(0.5)**	**211.0**	**(62.4)**
Profit for the period	-	-	-	-	-	13.7	13.7
Gain on cash flow hedges	-	-	-	-	0.2	-	0.2
Actuarial loss on defined benefit pension scheme	-	-	-	-	-	(12.8)	(12.8)
Effect of asset limit on defined benefit pension scheme	-	-	-	-	-	9.3	9.3
Tax relating to components of other comprehensive income	-	-	-	-	-	1.0	1.0
Total comprehensive income for the period	-	-	-	-	0.2	11.2	11.4
Dividends paid	-	-	-	-	-	(9.1)	(9.1)
Employee share schemes	-	-	0.2	-	-	(0.2)	-
Recognition of share based payments	-	-	-	-	-	0.6	0.6
Balance at 28 February 2011	**9.2**	**0.4**	**(2.2)**	**(280.1)**	**(0.3)**	**213.5**	**(59.5)**

[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 2011

£m	Note	6 months to 28 Feb 2011	6 months to 28 Feb 2010	Audited 12 months to 31 Aug 2010
Net cash from operating activities	**9**	**3.8**	**6.7**	**24.7**
Investing activities				
Interest received		-	0.1	-
Purchase of property, plant and equipment		(1.2)	(3.4)	(6.3)
Purchase of intangible assets		(0.3)	(0.9)	(2.3)
Net cash used in investing activities		**(1.5)**	**(4.2)**	**(8.6)**
Financing activities				
Interest paid		(1.5)	(1.4)	(2.6)
Dividends paid		(9.1)	(8.3)	(12.6)
Repayments of obligations under finance leases		(0.9)	(0.7)	(2.2)
Proceeds on issue of shares		-	-	0.5
Drawdown/ (repayments) of borrowings		5.0	-	(5.0)
Increase in short term borrowings		0.3	9.0	5.5
Net cash used in financing activities		**(6.2)**	**(1.4)**	**(16.4)**
Net (decrease)/ increase in cash and cash equivalents		**(3.9)**	**1.1**	**(0.3)**
Opening net cash and cash equivalents		4.0	4.3	4.3
Closing net cash and cash equivalents		**0.1**	**5.4**	**4.0**

Notes to the Condensed Unaudited Interim Financial Statements

For the 6 months to 28 February 2011

1 General information

These Interim Financial Statements are unaudited and not reviewed.

The information for the year ended 31 August 2010 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 which is repayable in November 2014;
- a £95m revolving credit facility is in place which is also repayable in November 2014; and
- a committed asset backed facility of up to £15m, 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.

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, 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 2010.

Notes to the Condensed Unaudited Interim Financial Statements

For the 6 months to 28 February 2011

3 Segmental analysis of results

The information presented to the Board for the purpose of resource allocation and assessment of segment performance was focused on the type of product sold. The principal activities of the Group reported to the Board were 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 2011:

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 2011	**28 Feb 2010**	**31 Aug 2010**	**28 Feb 2011**	**28 Feb 2010**	**31 Aug 2010**	**28 Feb 2011**	**28 Feb 2010**	**31 Aug 2010**
Revenue	798.8	844.0	1,692.5	73.5	75.8	137.1	872.3	919.8	1,829.6
Underlying operating profit	18.3	16.1	33.1	2.4	2.4	4.0	20.7	18.5	37.1
Non-recurring and other items	-	(1.5)	(5.4)	(0.5)	(0.5)	(1.5)	(0.5)	(2.0)	(6.9)
Operating profit	**18.3**	**14.6**	**27.7**	**1.9**	**1.9**	**2.5**	**20.2**	**16.5**	**30.2**

Other Segment information £m	**Assets**			**Liabilities**		
	6 months to		**12 months to**	**6 months to**		**12 months to**
	28 Feb 2011	**28 Feb 2010**	**31 Aug 2010**	**28 Feb 2011**	**28 Feb 2010**	**31 Aug 2010**
Newspaper & Magazine wholesaling	128.8	129.9	130.4	(205.2)	(216.8)	(211.8)
Book wholesaling	46.8	53.3	50.8	(29.9)	(32.0)	(31.8)
Consolidated	**175.6**	**183.2**	**181.2**	**(235.1)**	**(248.8)**	**(243.6)**

Notes to the Condensed Unaudited Interim Financial Statements
For the 6 months to 28 February 2011

4 Non-recurring and other items

	6 months to 28 Feb 2011		6 months to 28 Feb 2010	Audited 12 months to 31 Aug 2010
£m	**Amortisation of acquired intangibles**	**Total**	**Total**	**Total**
Operating loss	(0.5)	(0.5)	(2.0)	(6.9)
Non-recurring loss before tax	**(0.5)**	**(0.5)**	**(2.0)**	**(6.9)**
Taxation	0.1	0.1	0.5	1.7
Non-recurring loss after tax	**(0.4)**	**(0.4)**	**(1.5)**	**(5.2)**

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 2011 was £0.5m (Feb 2010: £0.5m).

During the six months ended 28 February 2010 the Group incurred reorganisation costs of £2.2m and released unutilised provisions of £0.7m following the sale of The Returns Company.

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 2011	28 Feb 2010	31 Aug 2010
Present value of the obligation	(344.3)	(336.4)	(367.4)
Fair value of plan assets	376.2	363.8	408.6
Surplus	**31.9**	**27.4**	**41.2**
Amounts not recognised due to asset limit	(31.9)	(27.4)	(41.2)
Retirement benefit obligation recognised in the balance sheet	**-**	**-**	**-**

The Pension Trust had an IAS 19 surplus at 28 February 2011 of £31.9m (Feb 2010: £27.4m). 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 2011	6 months to 28 Feb 2010	12 months to 31 Aug 2010
At beginning of period	(367.4)	(338.1)	(338.1)
Current service cost	(0.1)	(0.1)	(0.1)
Interest cost	(8.8)	(8.8)	(17.6)
Actuarial gains/ (losses)	25.7	3.6	(24.6)
Benefits paid	6.3	7.0	13.0
At end of period	**(344.3)**	**(336.4)**	**(367.4)**

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

£m	6 months to 28 Feb 2011	6 months to 28 Feb 2010	12 months to 31 Aug 2010
At beginning of period	408.6	357.4	357.4
Expected return on scheme assets	9.3	9.4	18.6
Actuarial (losses) / gains	(38.5)	1.1	39.1
Contributions	3.1	2.9	6.5
Benefits paid	(6.3)	(7.0)	(13.0)
At end of period	**376.2**	**363.8**	**408.6**

Notes to the Condensed Unaudited Interim Financial Statements
For the 6 months to 28 February 2011

6 Income tax expense

£m	6 months to 28 Feb 2011	6 months to 28 Feb 2010	12 months to 31 Aug 2010
Current tax	5.4	4.8	9.8
Current tax – non-recurring items	(0.1)	(0.5)	(1.7)
Adjustment in respect of prior year UK corporation tax	-	(1.1)	(1.4)
Total current tax charge	**5.3**	**3.2**	**6.7**
Deferred tax – current year	(0.3)	(0.2)	(0.1)
Deferred tax – prior year	-	-	0.3
Total tax on profit	**5.0**	**3.0**	**6.9**
Effective tax rate	*27%*	*20%*	*24%*

The tax rate for the six month period was 26.7% (Feb 2010: 19.6%) This represents the UK corporation tax rate of 28%, adjusted for a £0.1m tax credit relating to non-recurring items (Feb 2010: £0.5m), See Note 4 for further detail. The tax charge for the six months ended 28 February 2010 includes the release of provisions relating to prior years of £1.1m.

Reconciliation of the tax charge

£m	6 months to 28 Feb 2011	6 months to 28 Feb 2010	12 months to 31 Aug 2010
Profit before tax	**18.7**	**15.3**	**28.1**
Tax on profit at the standard rate of UK corporation tax 28% (2010: 28%)	5.2	4.3	7.9
Permanent differences	0.1	0.1	0.6
Non-taxable income	(0.3)	(0.3)	(0.5)
Adjustment in respect of prior year UK deferred tax	-	-	0.3
Adjustment in respect of prior year UK corporation tax	-	(1.1)	(1.4)
Total tax charge	**5.0**	**3.0**	**6.9**

7 Dividends

During the six month period to 28 February 2011, the final dividend for the year ended 31 August 2010 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 2011 of 2.6p per ordinary share (2010: 2.4p). This has not been included as a liability in these condensed financial statements. This will be paid on 10 June 2011 to shareholders registered at the close of business on 13 May 2011.

8 Earnings per share

	6 months to 28 Feb 2011	**6 months to 28 Feb 2010**	**12 months to 31 Aug 2010**
	£m	**£m**	**£m**
Profit for the period	13.7	12.3	21.2
Add back non-recurring items	0.4	1.5	5.2
Adjustment to reflect full year tax rate	-	(0.8)	-
Profit for the period adjusted for full year tax rate	**14.1**	**13.0**	**26.4**

	Number m	**Number m**	**Number m**
Weighted average number of shares in issue	183.4	182.9	183.1
Shares held by Employee Benefit Trust (weighted)	(2.1)	(2.9)	(2.5)
Weighted average number of shares in issue for basic earnings per share	**181.3**	**180.0**	**180.6**
Shares issuable (weighted)	3.0	0.2	3.3
Weighted average number of shares in issue for diluted earnings per share	**184.3**	**180.2**	**183.9**

Earnings per share:	**Pence**	**Pence**	**Pence**
Basic	7.6	6.8	11.7
Diluted	7.4	6.8	11.5
Adjusted earnings per share:			
Basic	7.8	7.2	14.6
Diluted	7.7	7.2	14.4

Adjusted earnings per share for the six months ended 28 February 2010 was stated on the basis of underlying profit and a tax rate adjusted to reflect the expected underlying full year tax rate of 25%. The tax rate for the six months ended 28 February 2011 was in line with expectations for the underlying full year tax rate and no such adjustment has been made.

Smiths News PLC

Notes to the Condensed Unaudited Interim Financial Statements
For the 6 months to 28 February 2011

9 Net cash inflow from operating activities

£m	6 months to 28 Feb 2011	6 months to 28 Feb 2010	12 months to 31 Aug 2010
Operating profit	20.2	16.5	30.2
Pension funding	(3.1)	(2.9)	(6.4)
Depreciation of property, plant and equipment	2.8	3.1	5.9
Amortisation of intangible assets	1.3	1.1	2.3
Share based payments	0.6	0.8	1.3
Decrease/ (increase) in inventories	4.8	1.0	(7.0)
(Increase)/ decrease in receivables	(6.0)	7.5	15.6
Decrease in payables	(16.3)	(15.3)	(10.0)
Income tax paid	1.3	(1.3)	(4.7)
Decrease in provisions	(1.8)	(3.8)	(2.5)
Net cash inflow from operating activities	**3.8**	**6.7**	**24.7**

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 2011 of £18.8m (31 August 2010: £21.2m).

11 Related Party Transactions

There have been no material changes to or material transactions with related parties as disclosed in note 28 of the Annual report and Accounts for the year ended 31 August 2010.

Notes to the Condensed Unaudited Interim Financial Statements
For the 6 months to 28 February 2011

12 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
13 April 2011

Nick Gresham
Chief Financial Officer
13 April 2011