

Smiths News PLC

Smiths News PLC Preliminary Results Announcement for the year ended 31 August 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 preliminary results for the year ended 31 August 2011.

Underlying results	FY 2011	FY 2010	Change
Revenue	£1,734.4m	£1,829.6m	(5.2%)
Underlying ⁽¹⁾ Profit before tax	£38.6m	£35.0m	10.3%
Underlying ⁽¹⁾ earnings per share	15.5p	14.6p	6.2%
Statutory results			
Revenue	£1,734.4m	£1,829.6m	(5.2%)
Statutory Profit before tax	£32.1m	£28.1m	14.2%
Statutory earnings per share	12.1p	11.7p	3.4%
Dividend per share	8.0p	7.4p	8.1%
Free cash flow ⁽²⁾	£22.5m	£20.4m	10.3%
Net Debt ⁽³⁾	£63.3m	£48.0m	(31.9%)

2011 HIGHLIGHTS:

- Delivering strong financial performance
 - Underlying PBT of £38.6m, up 10% despite difficult economic conditions
 - Generated free cash flow of £22.5m
- Continued strength in core business
 - Excellent cost savings performance of £22m with an additional £10m by FY 2013
 - Smiths News – 15% growth in operating profit
 - Bertrams outperforming UK books market and buoyed by strong international sales
- Successfully completed the acquisition of Dawson Holdings plc
 - Immediately EPS accretive
 - Transaction provides greater access to international and digital books markets
 - Integration underway
- Continued progress on diversification strategy
- Strong shareholder returns:
 - EPS of 15.5p, up 6%
 - Proposed final dividend of 5.4p, full year dividend of 8.0p, up 8%

Mark Cashmore, Group Chief Executive commented:

“The Group has delivered another strong performance in line with our strategy. Operational efficiency underpins this result having exceeded our 3 year cost savings target of £20m in one year. We are also driving base business revenues having successfully acquired Dawson Holdings plc, an immediately EPS earnings acquisition giving greater access to international and digital books markets.

Our medium term strategy is clear and progressing well. We are actively engaged with acquisition targets and anticipate non-newspaper and magazine profits to be in excess of 30% within 3 years.

Underlying profit before tax is £38.6m, up 10% on 2010 with strong cash generation and an 8% dividend increase, the fifth consecutive rise since demerger.”

The following definitions have been applied consistently throughout the annual report:

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

⁽²⁾ Free cash flow is the cash flow excluding the following; payment of the dividend, acquisitions, the proceeds on the disposal of freehold properties, repayments of obligations under finance leases, the repayment of bank loans, EBT share purchase and non-recurring and other items.

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

⁽⁴⁾ Smiths News like for like revenues exclude magazine and newspaper publisher contract gains and losses during the year, and the annualisation impact of gains and losses made in the prior year. Magazine and Total like for like revenues exclude the impact of part works and one shots. Bertrams like for like revenues exclude the impact of the fraudulent trading account identified in March 2011.

⁽⁵⁾ Smiths News is also referred to as the Newspaper and Magazine wholesaling segment. Bertrams including Dawson Books is also referred to as the Book wholesaling segment. Dawson Media Direct (DMD) and Dawson Marketing Services (DMS) are also referred to as the Media and Marketing segment.

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A meeting for analysts will be held at the office of Buchanan, 107 Cheapside, London, EC2V 6DN on Thursday 20 October commencing at 9.30am.

Smiths News PLC's Preliminary Results 2011 are available at www.smithsnews.co.uk

The Group will issue its Interim Management Statement on 10 January 2012 and hold its Annual General Meeting on 27 January 2012.

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.

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.

In August 2011 the company acquired Dawson Holdings plc and is currently integrating its businesses into the Smiths News Group. The principal asset, Dawson Books is a leading supplier of academic books in the UK and internationally.

Notes to Editors

This announcement contains certain forward-looking statements with respect to Smiths News PLC's financial condition, its results of operations and businesses, strategy, plans, objectives and performance. Words such as 'anticipates', 'expects', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'targets', 'may', 'will', 'continue', 'project' and similar expressions, as well as statements in the future tense, identify forward-looking statements. These forward-looking statements are not guarantees of Smiths News PLC's future performance and relate to events and depend on circumstances that may occur in the future and are therefore subject to risks, uncertainties and assumptions. There are a number of factors which could cause actual results and developments to differ materially from those expressed or implied by such forward looking statements, including, among others the enactment of legislation or regulation that may impose costs or restrict activities; the re-negotiation of contracts or licences; fluctuations in demand and pricing in the industry; fluctuations in exchange controls; changes in government policy and taxations; industrial disputes; war and terrorism. For a more detailed description of these risks, uncertainties and other factors, please see "Risks and Uncertainties". These forward-looking statements speak only as at the date of this announcement. Unless otherwise required by applicable law, regulation or accounting standard, Smiths News PLC undertakes no responsibility to publicly update any of its forward-looking statements whether as a result of new information, future developments or otherwise.

OPERATING REVIEW

INTRODUCTION

We are pleased to report another year of operational and profit progress for the Group. Smiths News PLC continues to operate from a position of strength, underpinned by its market leading position in newspaper and magazine distribution and its recently expanded book operation.

This strong performance has been driven by an outstanding cost control which generated £22m of sustainable efficiencies in the period. In August we successfully concluded the acquisition of Dawson Holdings plc and our synergy plan to realise value is now well underway. The acquisition will be immediately earnings accretive, and will strengthen our position in the growing international and digital books markets.

Underlying profit before tax increased to £38.6m, an increase of 10% on the previous year, from revenues of £1.7bn (2010: £1.8bn) A full year dividend of 8.0p represents an increase of 8%, the fifth consecutive year of dividend growth and highlights the Board's confidence in the Group's strong cash generation and future trading prospects.

STRATEGY

The Group's growth strategy is clear. We will maintain our market leading position in newspaper, magazine and book wholesaling as well as diversifying into chosen specialist distribution markets, building on our skills and competencies to create demonstrable value for shareholders.

We will deliver profit growth and cash generation for our shareholders by executing three distinct and compatible strategies.

Base business revenue growth – pursuing opportunities to grow and diversify revenues within our core categories. We successfully acquired Dawson Holdings plc in 2011 giving greater access to international and digital book markets.

Operational efficiency – our core markets of newspapers, magazines and books are large and resilient. Operational efficiency underpins our business. We have successfully delivered on cost savings targets and will continue to drive network refinement, process efficiency and cost reduction. Having over delivered on our 3 year cost savings target of £20m in FY2011, we have identified a further £10m of savings over the next two years.

Acquisitions – we will diversify into chosen specialist distribution markets by acquiring carefully targeted companies that capitalise upon our skills and competencies. This strategy is clear and in progress and we are actively engaged with acquisition targets. We are targeting the proportion of our non-newspaper and magazine operating profits to be over 30% by FY2014.

SMITHS NEWS DISTRIBUTION

Smiths News has delivered a typically strong and resilient performance in challenging market conditions. Underlying operating profit was £38.0m (2010: £33.1m) an increase of 14.8% and an operating margin of 2.4%.

The newspaper market has shown resilience in the context of the wider UK economy and is in line with our strategic forecast. The LFL market value trend has improved, down (2.5%) (2010: (4.1%)) with volume declines being partially offset by cover price inflation. There have been 15 cover price rises in the year including the Mail up +5p, the Express +5p and the Telegraph +10p.

The LFL sales figures include the impact of the recent closure of the News of The World (NOTW), which demonstrated the habitual nature of consumer demand for newspapers. Competing publishers acted swiftly to capture valuable readership, investing in promotions, additional print runs and national TV advertising campaigns – Smiths News estimates that product substitution was as high as 80%.

The magazine market, however, continues to be impacted by the wider economic uncertainty. Core weekly and monthly magazine LFL sales were down (6.7%) with an improved performance in H2 (down (5.8%)) due to the positive impact of the Royal Wedding. Including one shots and partworks, total LFL sales were down (9.0%) due

to World Cup specials, one-shots and football stickers in FY2010. An improvement in FY2012 is however anticipated from the European Football Championships and the Olympics.

The combined performance of the core newspaper and magazine markets (down (4.1%)) was well within our strategic forecast range which underpins our business plan.

Elsewhere, Smiths News gained Regional Press contracts worth an annualised £16m. These gains are in line with the trend of regional publishers outsourcing their distribution. We believe this opportunity can continue, however, progress may be more limited over the next 12 months.

The performance of our subsidiary businesses reported within Smith News was also pleasing. Instore, our field marketing business, had a strong year, winning new clients and increasing both revenue and profits. Likewise our joint venture with Rascal Solutions continues to make progress and in August it won a contract to provide its technology based supply chain solutions to 465 Morrison stores across the UK.

The 15% growth in operating profit was underpinned by exceptional operational efficiencies. £19m of savings were delivered in the year including £5m network savings, £9m operational efficiencies and £5m of central cost savings. During the year we reduced our network footprint by 7 locations and we are now operating from fewer hub depots than prior to the contract awards of 2009 which increased our market share from 39% to 55%.

Looking ahead, we are targeting further efficiencies of at least £10m over the next two years. Action is already underway: a recent Organisation Review has identified £3m of central savings, and in Spring 2012 we will open a new flagship depot at Birmingham that will consolidate five current sites. Further network and process savings are planned giving us a clear flight-path to achieving the target.

BERTRAMS

The consumer book market in the UK was down by (4.0%) in the period reflecting difficult economic conditions. Bertrams outperformed the market with like for like sales down (2.3%). The performance improved through H2 which was down (1.4%). Total sales were £131.8m (2010: £137.1m).

Bertrams UK wholesale operation maintained its market share, growing revenues 0.8% in what were extremely tough conditions. Internet sales continue to outperform the high street which favourably impacted Bertrams due to a strong share of internet retailers in our sales mix. Notable contract wins in the year include becoming one of Tesco's online fulfilment partners and a contract to fulfil Sainsbury's online book orders.

International sales, which accounted for 17% of Bertrams 2011 sales, grew by 14% on top of prior year growth of 20%. This on-going success reflects our strategy of expanding into international markets. Bertrams trades B2B with 86 countries with particularly strong growth in the Far East and Australasia.

Sales to public libraries were down by (21%) LFL in the year following the cuts to public spending announced in autumn 2010. We expect the public library market to remain challenging but recent order levels suggest the position is now stabilising. Bertrams Library Services was successful with a number of contract renewals and awards, including Essex, West Mercia, North West & Yorkshire and London. Our outsourcing contract with Brighton Libraries, the only one of its kind in the UK, was also renewed. Looking ahead, there are significant new contract opportunities in the coming year.

In our interim statement of 13 April 2011, we reported on a customer account that had been fraudulently controlled by an employee, creating a loss of £1.9m. We have now had confirmation from our insurers that the loss is fully recoverable, after a deductible of £65k.

The acquisition of Dawson Books brings the UK's market leading supplier of academic books into our books portfolio and increases our books revenues by one third. Academic libraries are a growing market and have different funding dynamics to public libraries, but importantly, similar physical processes for the servicing and despatch of books. In addition to new revenue opportunities there are significant cost synergies to be realised as we integrate the businesses. The acquisition also included the Dawsonera eBook platform, which we regard as a prize asset giving us access to the growing demand for digital books. We plan to invest to grow the platform for existing users, public libraries and international markets.

Bertrams operating profit was £3.7m in 2011 (2010: £4.0m) with a stable operating margin of 2.8% (2010: 2.9%) The business has achieved an excellent performance on costs, realising £3m of cost efficiencies and improving the cost ratio by 1.4%. Savings came from new processes and staff profiling in the warehouse, improving our flexibility in response to reduced volumes as well as the closure of the library services operation in Leeds. There is further opportunity as we integrate Dawson Books.

In July we appointed Graeme Underhill as Managing Director of Bertrams. His ten year experience as Operations Director of Smiths News brings invaluable experience to the business, complementing the combined commercial teams of Bertrams and Dawson Books. With the integration of Dawson Books already underway we are confident that Graeme will lead the delivery of service and efficiency improvement that was his hallmark at Smiths News.

ACQUISITION OF DAWSON HOLDINGS PLC

In August 2011 the Group successfully acquired Dawson Holdings plc, a move consistent with the Group's strategy of strengthening our market position in core markets.

The transaction will be immediately earnings accretive generated £1.3m of operating profit for the 11 month pre-acquisition period to August 2011 and with each of the three divisions acquired being cash generative. We expect to deliver £3.8m of synergy benefits and a pro forma EBITDA of £5.8m by FY2014, equivalent to full year synergy EPS accretion of 13%.

Dawson Books, the principal asset, is the largest supplier of books to the UK academic library market and has an attractive international business accounting for over a third of revenues from sites in France, Spain, Hong Kong and South Africa. The leading eBook platform, *Dawsonera*, has grown 24% in 2011 (90% in 2010). The database is highly regarded, encompasses over 140,000 titles and offers an excellent opportunity for growth in the consolidated supply of eBooks to academic and public libraries, businesses and other institutions.

Dawson Media Direct is a specialist distribution operation, focused on the supply of newspapers and magazines to airlines worldwide; it includes a small and potentially attractive in-flight entertainment venture. The business is an excellent complement to Smiths News, facilitating our access to new and growing markets. Dawson Marketing Services is a smaller operation that operates in the fulfilment and sales support sector.

DIVERSIFICATION

We are committed to diversifying into new markets which offer the Group a clear path to further growth. Acquisitions have and will form an integral part of this strategy as we look to take our distribution skills into carefully chosen new sectors. We have identified a number of preferred targets and are in active dialogue to progress these opportunities.

Our team has a developing track record of acquiring and integrating businesses from the successful acquisitions of Bertrams (March 2009), Dawson News (July 2009) and Dawson Holdings plc (August 2011) and we are confident we can apply those same principles to new businesses in different sectors. We look forward to updating the market on our progress in the future.

BANK FACILITIES

The Group has a bank facility of £135m through to November 2014 with flexibility to secure further borrowings on Group assets of up to £35m. Net debt as at 31 August 2011 is £63.3m representing a net debt:EBITDA ratio of 1.3x. The Group continues to operate well within its banking covenants and continues to build strong relationships with its syndicate of 5 major lenders.

OUTLOOK

Our medium term direction is clear and progressing well.

We are confident Smiths News can maintain a modest profit growth whilst continuing to generate substantial cash returns.

Following the integration of Dawson Books, Bertrams is expected to generate revenues in excess of £200m and operating profits of at least £10m by FY2014. We will continue to seek new customer wins both in the UK and globally in the Dawson Media and Marketing businesses, growing their profits by over 20% per annum.

Our diversification strategy is expected to bring businesses with sustainable growth prospects into our portfolio. Non-newspaper and magazine operating profits should be in excess of 30% within 3 years.

The Group has started FY2012 trading in line with expectations, and remains on track to grow profits in the current financial year. This is reflected in the proposed 8% dividend increase announced today, the fifth consecutive rise since demerger.

FINANCIAL REVIEW

GROUP

£m	FY 2011	FY 2010	Change
Revenue	1,734.4	1,829.6	(5.2%)
Gross profit	160.1	177.0	(9.5%)
Operating costs	(118.4)	(139.9)	15.4%
Underlying operating profit	41.7	37.1	12.4%
Net finance costs	(3.1)	(2.1)	(47.6%)
Underlying profit before tax	38.6	35.0	10.3%
Taxation	(10.4)	(8.6)	(20.9%)
<i>Tax rate</i>	27%	25%	
Underlying profit after tax	28.2	26.4	6.8%

Group revenues were down (5.2%) to £1,734.4m. The majority of the reduction came from Smiths News which contributed over 90% to Group revenue.

Underlying Group operating profit of £41.7m was up 12.4% underpinned by exceptional cost efficiencies taking £22m of costs out of the businesses.

Finance costs at £3.1m (2010: £2.1m) were up £1m in the year due to an increase in the cost of borrowing following the refinancing in September 2010.

Underlying Group profit before tax of £38.6m was up 10.3%.

The tax charge for the year of £10.4m represented an effective rate of 27% (2010: 25%).

Underlying profit after tax of £28.2m resulted in a 6.8% increase year on year with the strong operating profit performance being partially offset by an increase in finance costs and the effective tax rate.

Group totals for 2011 included 8 days of post-acquisition trading for Dawson Holdings plc which completed on 23 August 2011.

EPS AND DIVIDEND

	Underlying		Statutory	
	FY 2011	FY 2010	FY 2011	FY 2010
Profit after tax (£m)	28.2	26.4	21.9	21.2
Basic number of shares (millions)	181.4	180.6	181.4	180.6
Basic EPS	15.5p	14.6p	12.1p	11.7p
Diluted number of shares (millions)	184.3	183.9	184.3	183.9
Diluted EPS	15.3p	14.4p	11.9p	11.5p
Dividend per share	8.0p	7.4p	8.0p	7.4p

On an underlying basis, profit after tax of £28.2m resulted in an EPS of 15.5p, up 0.9p or 6.2% on prior year.

Including non-recurring and other items, statutory profit after tax of £21.9m gave an EPS of 12.1p, up 0.4p or 3.4% on prior year.

The calculation of diluted EPS reflected the potential dilutive effect of employee incentive schemes. This increased the number of shares in FY2011 by 2.9m to 184.3m and resulted in a diluted underlying EPS of 15.3p, up 0.9p or 6.3% on prior year.

The proposed final dividend for the year ended 31 August 2011 of 5.4p is subject to approval by shareholders at the Annual General Meeting on 27 January 2012 and has not been included as a liability in these accounts. The proposed dividend, if approved, will be paid on 3 February 2012 to shareholders on the register at close of business on 6 January 2012.

SMITHS NEWS

£m	FY 2011	FY 2010	Change	LFL ⁽⁴⁾
Newspapers	935.7	952.0	(1.7%)	(2.5%)
Magazines	582.7	663.5	(12.2%)	(6.7%)
Other	82.3	77.0	6.9%	
Total revenue	1,600.7	1,692.5	(5.4%)	(4.1%)
Gross profit	137.4	151.6	(9.4%)	
Operating costs	(99.4)	(118.5)	16.1%	
Underlying operating profit	38.0	33.1	14.8%	
Gross margin	8.6%	8.9%	(30 bps)	
Cost ratio	(6.2%)	(7.0%)	80 bps	
Operating margin	2.4%	1.9%	50 bps	

Smiths News total revenues were down (5.4%) on the prior year with like for like revenues down (4.1%).

Gross margin rate was down 30bps as a result of margin mix between magazines down (12.2%) versus newspapers down (1.7%).

The cost ratio showed an exceptional performance, as a result of total cost savings of £19m. Network savings, continued operational efficiencies and central cost savings combined to deliver our original 3 year target of savings in one year.

Smiths News underlying operating profit of £38.0m showed a growth of just under 15% and resulted in an operating margin of 2.4%, up 50bps versus the prior year.

BERTRAMS

£m	FY 2011	FY 2010	Change	LFL ⁽⁴⁾
Revenue	131.8	137.1	(3.9%)	(2.3%)
Gross profit	22.4	25.4	(11.8%)	
Operating costs	(18.7)	(21.4)	12.6%	
Underlying operating profit	3.7	4.0	(7.5%)	
Gross margin	17.0%	18.5%	(150 bps)	
Cost ratio	(14.2%)	(15.6%)	140 bps	
Operating margin	2.8%	2.9%	(10 bps)	

Bertrams total revenues were down (3.9%) versus prior year with like for like revenues down (2.3%).

UK wholesaling revenues, which represented 65% of Bertrams revenues, outperformed the market. However, Library Services revenues were down (21%) as a result of the tougher public services market.

Gross margin rate was down 150bps having invested to drive profitable sales in what has been a competitive UK book market.

The cost ratio showed an excellent performance as a result of total cost savings of nearly £3m up 140 bps versus prior year. This was achieved through volume savings, operational efficiencies throughout the warehouse and central cost savings.

Bertrams underlying operating profit of £3.7m resulted in an operating margin of 2.8%, down (10 bps) with cost savings mostly offsetting the gross profit decline.

NON-RECURRING AND OTHER ITEMS

£m	FY 2011	FY 2010
Re-organisation and integration costs	(2.7)	(6.7)
Amortisation of acquired intangibles	(0.9)	(0.9)
Acquisition costs	(2.4)	-
Property provisions	(0.5)	-
The Returns Company	-	0.7
Total before taxation	(6.5)	(6.9)
Taxation	0.2	1.7
Total after taxation	(6.3)	(5.2)

Non-recurring and other items totalled £6.5m before tax and £6.3m after tax for the financial year.

The largest element was re-organisation and integration costs of £2.7m. This represented just over half of the £5.0m announced last October which enabled us to deliver £22m of cost savings in the year.

Amortisation of acquired intangibles related to the Bertrams acquisition from March 2009.

Acquisition costs are those associated with the recent completion of Dawson Holdings plc on 23 August 2011.

Property provisions increased by £0.5m as a result of additional costs expected from reversionary leases.

FREE CASH FLOW

£m	FY 2011	FY 2010
Underlying profit before interest and tax	41.7	37.1
Depreciation & Amortisation	6.8	7.3
EBITDA	48.5	44.4
Working capital	(10.3)	(1.4)
Capital expenditure	(3.1)	(8.6)
Net interest paid	(4.9)	(2.6)
Taxation	(1.7)	(5.9)
Ongoing pension funding	(6.2)	(6.4)
Other	0.2	0.9
Free cash flow ⁽²⁾	22.5	20.4

The Group continued to generate strong free cash flow, delivering £22.5m in FY2011 and now a cumulative of £115m since demerger.

Working capital outflow of £10.3m included £1.9m of a recoverable insurance debtor, which was outstanding at year end. The remainder was attributable to the timing of the publisher payment cycle relative to the year end.

Capital expenditure was £3.1m in the year, a reduction of (£5.5m) on 2010, which included a substantial investment in the network and roll out of SAP in the ex-Dawson News depots acquired in August 2009.

Net interest paid was £4.9m, an increase of £2.3m on prior year reflecting an increase in the cost of borrowing following the refinancing in September 2010 plus payment of the associated bank arrangement fees.

Tax payments were £1.7m in the year having benefited from a prior year rebate of £2.8m (2010: £0.3m).

The £6.2m pension funding for the year predominantly related to the annual pension deficit funding of £5.8m agreed at the last triennial valuation in March 2009.

NET DEBT

£m	FY 2011	FY 2010
Opening net debt⁽³⁾	(48.0)	(49.5)
Free cash flow	22.5	20.4
Dividend paid	(13.8)	(12.6)
Non-recurring items	(5.2)	(6.7)
New finance leases	(0.6)	0.4
Share Purchase	(0.3)	-
Net debt pre-acquisition	(45.4)	(48.0)
Acquisitions	(17.9)	-
Closing net debt⁽³⁾	(63.3)	(48.0)

The Group continued to marginally reduce its net debt position before acquisitions. Closing net debt was £63.3m (2010: £48.0m).

Acquisitions represent the Dawson Holdings plc consideration of £20.6m, less cash at the date of acquisition which was exaggerated by expected payments not cleared before the year end.

We remained comfortably within our banking covenants with net debt : EBITDA at 1.3x versus a covenant test of 2.5x.

BANK FACILITIES

The Group has a £135m facility through to the end of November 2014, with annual repayments of £3m, £3m and £4m starting from September 2012.

In addition the Group has the option for further borrowings of up to £35m that could be secured against Group assets.

GOING CONCERN

The Group meets its day to day working capital requirements through its bank facilities of up to £135m, which do not expire until 30 November 2014. 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.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus the Group continues to adopt the going concern basis in preparing its consolidated financial statements.

RISKS AND UNCERTAINTIES

The Group operates in large and stable markets. Strong cost control is a core competency and, given the relative predictability of sales, the Group is well placed to mitigate any major risks. The Board and Executive Management Team have assessed the Group's appetite for risk and continue to monitor the key risks on an on-going basis.

The Group's key businesses have relatively secure revenues. Smiths News has agreements with the major newspaper and magazine publishers for the next four years for the vast majority of its revenues. Bertrams has contracts for its library business that run for an average of three years, whilst the remainder of trading is with established customers. Dawson Books and Dawson Media Direct have similar characteristics with the vast majority of revenues secured by contractual agreements.

The Group has robust internal procedures to monitor sales, costs, profits and risks. The Executive and Risk Committees review the principal strategic and financial risks on a quarterly basis. The Audit Committee oversees the overall risk process and reviews the outcome of this process twice a year. The business completes a detailed reforecast at least twice a year and more regularly if any significant issues arise and these forecasts are reviewed by the Board.

Our assessments of the principal risks are as follows.

- **Consumer confidence and spending**

The economic environment remains uncertain, and Government spending cuts have also contributed to reduced consumer confidence and discretionary spending, including the sales of newspapers, magazines and books.

Whilst consumer confidence has a clear correlation with retail sales, the habitual nature of newspapers and magazines helps to limit the impact. Demand for books is similarly resilient and the Group strategy remains to increase sales by targeting growth sectors such as the internet and international sales. The vast majority of newspapers, magazines and books have a relatively low cover price; nonetheless, it remains possible that consumers seeking to economise could regard these as discretionary items and either stop or reduce the frequency of purchasing.

- **Impact of passive sales**

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

In October 2011 Smiths News was supplying 162 retailers under a passive sales arrangement. The business has received 11 requests from existing retailers to transfer to another supplier.

- **OFT Prioritisation Review**

The OFT is currently undertaking a 'prioritisation review' to assess developments in the newspaper and magazine supply chain. The review arises from the OFT's 2009 report (Newspaper & Magazine Distribution in the UK/OFT 1121) which gave a commitment to consider, after two years, if any further review was required. It is possible the OFT could decide that the industry arrangements require review either by the OFT or by referral to the Competition Commission. Such further review would create uncertainty in the supply chain and its outcome could potentially undermine the basis of existing contracts and revenue streams.

After publication of the OFT's opinion the Group became a founder member and is an active participant of the Press Distribution Forum ("PDF"). Smiths News supports the PDF's retailer charter, and the associated Press Distribution Review Panel. The Group continues to work with its industry partners to improve service and efficiency for retailers, to the benefit of overall consumer welfare.

Whilst the possibility of a wider industry review is outside our direct control, the combination of leading service and the most efficient operation means Smiths News is well placed to respond to any realistic outcome.

- **Accelerated declines in sales impacting on newspaper and magazine and book publishers**

An accelerated decline in sales of newspapers, magazines or books could have an adverse effect on revenues and undermine the business model of publishers. This could lead to title closures, reduced investment in products and promotions, or even the failure of some publishers.

National newspapers have a long-term trend of price increases mostly offsetting the impact of volume declines; they have shown resilience in the recent economic downturn and publishers have continued to invest in traditional print. Nonetheless, we are planning on the basis of limited price inflation and our contracts provide protection to margins in the event of promotional price discounting.

Magazines sales have been more impacted by the recession and there has been some shakeout in the market with a small number of title closures. Magazine launches and closures are a feature of the market with new titles replacing those which no longer reflect consumer lifestyles. Despite recent closures, more than 3,500 consumer magazines are in circulation in the UK and publishers continue to regard these as valuable brands.

Our comprehensive understanding of sales and market dynamics help us to anticipate and plan for any worsening of conditions, enabling us to take appropriate action to protect profits.

- **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. There also remains the risk of contract renewals at lower margin.

Smiths News has the majority of its major contract revenues secured until at least 2015 and is well positioned to renegotiate its contracts as and when they come up for renewal. We are the UK's leading wholesaler of newspapers and magazines with a strong service performance and our combination of scale, specialist services and category expertise is difficult for new entrants to replicate. Smiths News has long standing commercial relationships throughout the supply chain and continues to work closely with publishers and retailers to ensure our plans and objectives are aligned.

- **Digital media**

The increasing penetration of e-book readers and tablet devices (such as the Apple iPad and Amazon Kindle), together with publishers' increased investment in digital publishing could lead to a sharper than anticipated decline in sales of traditional newspapers, magazines and books. More generally, the move from traditional printed media to digital alternatives could have an adverse effect on sales and growth opportunities.

The Group is aware that digital media will have an impact on traditional markets. However, it supports the view that the impact on newspapers, magazines and books is likely to be an evolutionary rather than revolutionary process. Printed media continues to represent the vast majority of revenues in newspapers and magazines. Dawson's e-book platform, Dawsonera, will facilitate our entry into the growing market for digital books, especially in the academic sector.

The majority of publishers are heavily reliant on revenues from traditional channels and have strong incentives for the continued support of these formats and brands. There is evidence from recent investments made by publishers that they believe these have considerable life expectancy.

The Group will continue to monitor market developments closely.

- **Impact of Public Sector policy on libraries**

The Government's plans to reduce and contain spending in the public sector have had a detrimental

impact on budgets for public libraries, reducing the value of on-going expenditure and future contracts. It is possible that the impact of such cuts will lead to further budget reductions and library closures over time. In the academic sector, the changes to student funding could also, over time, reduce the number of students with a consequential impact on library purchases.

The Group recognises that available funds in the public sector will be more limited and has planned accordingly. Orders were particularly volatile immediately following the Government's announcement of the budget cuts, but appear to have now settled into a more consistent pattern. The proposed integration of Dawson Books into Bertrams' facility at Norwich would reduce total overheads and create scale efficiencies, helping to offset the impact of reduced order values. There are also opportunities to increase share as new contracts become available for tender. The impact of changes to student funding in the academic library market is less clear, although the Group has research to suggest the increase in student fees may also lead to improved library resources. To some extent the change could be regarded as a switch from public to private sector funding. The Group will monitor the market closely and respond accordingly.

- **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 2006 Demerger Agreement with WH Smith PLC, any other 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 31 August 2011 of £13.9m (2010: £21.2m).

Although the total liability is significant, many of the leases were assigned to retail companies that continue to trade well and are financially robust. Given the expiry of time, it is also likely that many of the leases included within the contingent liability have been renegotiated such that any liability has been extinguished. The maximum potential lease liability will continue to decline, with an estimated maximum liability of below £5m by August 2015.

The Group, working with WH Smith PLC, has either sub-let or reached a mediated settlement in relation to 4 leases following a Creditor Voluntary Agreement made by, and subsequent administration of, Focus (DIY) Limited. The cost of the mediated settlements to the Group totalled £0.9m and liability for four properties remains outstanding.

The cash impact resulting from the estimated future cumulative gross rental commitment would spread over more than 10 years.

- **Financial exposure to key retailers and publishers**

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

The Group monitors payments carefully and has a strong track record of cash collection from its customer base. Payment for newspapers and magazines from smaller retailers is generally received on a weekly basis and their reliance on these products means that settlement of our invoice is generally prioritised.

The Group's largest credit risk is to some of the UK's major retailers who have strong credit ratings. Of our larger retailer customers, the top five are major UK PLCs with good payment records and credit ratings. We also have credit insurance against a number of smaller retail chains. The average credit period taken on sale of goods is 21 days (2010: 21 days). We continue to manage our credit risk tightly to ensure our customers comply with payment terms.

The failure of one or more of our publisher / distributor suppliers could result in exposure to a significant cash shortfall if the credits due to retailers for unsold copies are greater than any outstanding payments due to the failed publisher.

The Group monitors stock and unsold levels on a regular basis and where appropriate it phases payments to publishers to ensure any exposure is minimised; we also use external data to monitor credit

ratings on a regular basis. Our largest suppliers are large companies, and in some cases part of larger quoted companies, with an established and stable business models. The Group operates in large and stable markets. Strong cost control is a core competency and, given the relative predictability of sales, the Group is well placed to mitigate any major risks. The Board and Executive Management Team have assessed the Company's appetite for risk and continue to monitor the key risks on an ongoing basis.

Both of the Group's key businesses have relatively secure revenues. Smiths News has contracts with the major newspaper and magazine publishers for the next four years for the vast majority of its revenues. Bertrams has contracts for its library business that run for an average of three years, whilst the remainder of trading is with established customers. Dawson Books and Dawson Media Direct have similar characteristics with the vast majority of revenues secured by contractual agreements.

The Group has robust internal procedures to monitor sales, costs, profits and risks. The Executive and Risk Committee's review the principal strategic and financial risks on a quarterly basis. The Audit Committee oversees the overall risk process and reviews the outcome of this process twice a year. The business completes a detailed reforecast at least twice a year and more regularly if any significant issues arise and these forecasts are reviewed by the Board. Our assessments of the principal risks are as follows.

- **Consumer confidence and spending**

The economic environment remains uncertain, and Government spending cuts have also contributed to reduced consumer confidence and discretionary spending, including the sales of newspapers, magazines and books.

Whilst consumer confidence has a clear correlation with retail sales, the habitual nature of newspapers and magazines helps to limit the impact. Demand for books is similarly resilient and the Group strategy remains to increase sales by targeting growth sectors such as the internet and international sales. The vast majority of newspapers, magazines and books have a relatively low cover price; nonetheless, it remains possible that consumers seeking to economise could regard these as discretionary items and either stop or reduce the frequency of purchasing.

- **Impact of passive sales**

Following guidance issued by the Office of Fair Trading, our magazine contracts 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.

In October 2011 Smiths News was supplying 162 retailers under a 'passive sales' arrangement. The business has received 11 requests from existing retailers to transfer to another supplier.

- **OFT Prioritisation Review**

The OFT is currently undertaking a 'prioritisation review' to assess developments in the newspaper and magazine supply chain. The review arises from the OFT's 2009 report (Newspaper & Magazine Distribution in the UK/OFT 1121) which gave a commitment to consider, after two years, if any further review was required. It is possible the OFT could decide that the industry arrangements require review either by OFT or by referral to the Competition Commission. Such further review would create uncertainty in the supply chain and its outcome could potentially undermine the basis of existing contracts and revenue streams

After publication of the OFT's opinion the Group became a founder member and is an active participant of the Press Distribution Forum. Smiths News supports the PDF's retailer charter, and the associated Press Distribution Review Panel. The Group continues to work with its industry partners to improve service and efficiency for retailers, to the benefit of overall consumer welfare.

Whilst the possibility of a wider industry review is outside our direct control, the combination of leading

service and the most efficient operation means Smiths News is well placed to respond to any realistic outcome.

- **Accelerated declines in sales impacting on newspaper and magazine and book publishers**

An accelerated decline in sales of newspapers, magazines or books could have an adverse effect on revenues and undermine the business model of publishers. This could lead to title closures, reduced investment in products and promotions, or even the failure of some publishers.

National newspapers have a long-term trend of price increases mostly offsetting the impact of volume declines; they have shown resilience in the recent economic downturn and publishers have continued to invest in traditional print. Nonetheless, we are planning on the basis of limited price inflation and our contracts provide protection to margins in the event of promotional price discounting.

Magazines sales have been more impacted by the recession and there has been some shakeout in the market with a small number of title closures. Magazine launches and closures are a feature of the market with new titles replacing those which no longer reflect consumer lifestyles. Despite recent closures, more than 3500 consumer magazines are in circulation in the UK and publishers continue to regard these as valuable brands.

Our comprehensive understanding of sales and market dynamics helps us to anticipate and plan for any worsening of conditions, enabling us to take appropriate action to protect profits.

- **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. There also remains the risk of contract renewals at lower margin.

Smiths News has the majority of its major contract revenues secured until at least 2015 and is well positioned to renegotiate its contracts as and when they come up for renewal. We are the leading news wholesaler with a strong service performance and our combination of scale, specialist services and category expertise is difficult for new entrants to replicate. Smiths News has long standing commercial relationships throughout the supply chain and continues to work closely with publishers and retailers to ensure our plans and objectives are aligned.

- **Digital media**

The increasing penetration of book readers and tablet devices (such as the Apple iPad and Amazon Kindle), together with publishers' increased investment in digital publishing could lead to a sharper than anticipated decline in sales of traditional newspapers, magazines and books. More generally, the move from traditional printed media to digital alternatives could have an adverse effect on sales and growth opportunities.

The Group is aware that digital media will have an impact on traditional markets. However, it supports the view that the impact on news and books is likely to be an evolutionary rather than revolutionary process. Printed media continues to represent the vast majority of revenues in newspapers and magazines. The Dawsonera platform will facilitate our entry into the growing market for digital books, especially in the academic sector.

The majority of publishers are heavily reliant on revenues from traditional channels and have strong incentives for the continued support of these formats and brands. There is evidence from recent investments made by publishers that they believe these have considerable life expectancy.

The Group will continue to monitor market developments closely.

- **Impact of Public Sector policy on libraries**

The Government's plans to reduce and contain spending in the public sector have had a detrimental impact on budgets for public libraries, reducing the value of ongoing expenditure and future contracts. It is possible that the impact of cuts will lead to further budget reductions and library closures over time. In the academic sector the changes to student funding could also, over time, reduce the number of students with a consequent impact on library purchases.

The Group recognises that available funds in the public sector will be more limited and has planned accordingly. Orders were particularly volatile following the announcement of the budget cuts, but appear to have now settled into a more consistent pattern. The proposed integration of Dawson Books into Bertrams facility at Norwich would reduce total overheads and create scale efficiencies, helping to offset the impact of reduced order values. There are also opportunities to increase share as new contracts become available for tender. The impact of changes to student funding on the academic library market is less clear, and the Group has research to suggest the increase in fees may also lead to improved facilities and funding. To some extent the change could be regarded as a switch from public to private sector funding. The Group will monitor the market closely and respond accordingly.

- **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 other 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 31 August 2011 of £13.9m (2010: £21.2m).

Although the total liability is significant, many of the leases were assigned to retail companies that continue to trade well and are financially robust. Given the expiry of time, it is also likely that many of the leases included within the contingent liability have been renegotiated such that any liability has been extinguished. The maximum potential lease liability will continue to decline, with an estimated maximum liability of below £5m by August 2015.

The Group, working with WH Smith PLC, has either sub-let or reached a mediated settlement in relation to 4 leases following a Creditor Voluntary Agreement made by, and subsequent administration of, Focus (DIY) Limited. The cost of the mediated settlements to the Group totalled £0.9m and liability for four properties remains outstanding. The cash impact resulting from the estimated future cumulative gross rental commitment would spread over more than 10 years.

- **Financial exposure to key retailers and publishers**

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

The Group monitors payments carefully and has a strong track record of cash collection from its customer base. Payment for newspapers and magazines from smaller retailers is generally received on a weekly basis and their reliance these on products means that settlement of our invoice is generally prioritised.

The Group's largest credit risk is to some of the UK's major retailers who have strong credit ratings. Of our larger retailer customers, the top five are major UK PLCs with good payment records and credit ratings. We also have credit insurance against a number of smaller retail chains. The average credit period taken on sale of goods is 21 days (2010: 21 days). We continue to manage our credit risk tightly to ensure our customers comply with payment terms.

The failure of one or more of our publisher / distributor suppliers could result in exposure to a significant

cash shortfall if the credits due to retailers for unsold copies are greater than any outstanding payments due to the failed publisher.

The Group monitors stock and unsold levels on a regular basis and where appropriate it phases payments to publishers to ensure any exposure is minimised; we also use external data to monitor credit ratings on a regular basis. Our largest suppliers are large companies, and in some cases part of larger quoted companies, with an established and stable business models.

Smiths News PLC
Group Income Statement for the year ended 31 August 2011

£m	2011			2010			
	Note	Underlying*	Non-recurring and other items **	Total	Underlying*	Non-recurring and other items **	Total
Continuing operations							
Revenue	2	1,734.4	-	1,734.4	1,829.6	-	1,829.6
Operating profit	3	41.7	(6.5)	35.2	37.1	(6.9)	30.2
Investment revenues	5	1.2	-	1.2	1.1	-	1.1
Finance costs	6	(4.3)	-	(4.3)	(3.2)	-	(3.2)
Profit before tax		38.6	(6.5)	32.1	35.0	(6.9)	28.1
Income tax expense	7	(10.4)	0.2	(10.2)	(8.6)	1.7	(6.9)
Profit for the year		28.2	(6.3)	21.9	26.4	(5.2)	21.2

Earnings per share

<i>Basic</i>	9	15.5p		12.1p	14.6p		11.7p
<i>Diluted</i>	9	15.3p		11.9p	14.4p		11.5p
<i>Equity dividends per share</i>	8			8.0p			7.4p

*Before non-recurring and other items.

**Non-recurring and other items are set out in Note 3.

Smiths News PLC
Group Statement of Comprehensive Income for the year ended 31 August 2011

£m	Note	2011	2010
(Loss)/gain on cash flow hedges		(1.6)	0.9
Actuarial (loss)/gain on defined benefit pension scheme	4	(21.7)	14.5
Effect of asset limit on defined benefit pension scheme	4	14.4	(21.9)
Tax relating to components of other comprehensive income		2.4	2.1
Other comprehensive income for the year		(6.5)	(4.4)
Profit for the year		21.9	21.2
Total comprehensive income and expense for the year		15.4	16.8

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

Smiths News PLC
Group Balance Sheet at 31 August 2011

£m	Note	2011	2010
Non-current assets			
Intangible assets		36.9	12.7
Property, plant and equipment		18.7	21.0
Interest in jointly controlled entities and associates		3.9	3.7
Investments		0.1	-
Deferred tax assets		3.0	1.6
		62.6	39.0
Current assets			
Inventories		34.7	38.1
Trade and other receivables		109.7	99.2
Cash and cash equivalents		4.2	4.0
Assets held for sale		0.8	0.9
		149.4	142.2
Total assets		212.0	181.2
Current liabilities			
Trade and other payables		(181.4)	(181.7)
Current tax liabilities		(7.6)	-
Bank loans and other borrowings	11	(26.0)	(48.8)
Obligations under finance leases		(1.1)	(1.6)
Derivative financial instruments		(0.6)	(0.5)
Provisions	12	(4.1)	(5.0)
		(220.8)	(237.6)
Non-current liabilities			
Retirement benefit obligation	4	-	-
Bank loans and other borrowings	11	(39.2)	-
Obligations under finance leases		(1.2)	(1.6)
Other non-current liabilities		(0.5)	(0.6)
Deferred tax liabilities		(4.1)	(1.9)
Derivative financial instruments		(1.5)	-
Long-term provisions	12	(4.9)	(1.9)
		(51.4)	(6.0)
Total liabilities		(272.2)	(243.6)
Total net liabilities		(60.2)	(62.4)

Smiths News PLC
Group Balance Sheet at 31 August 2011 (continued)

£m	2011	2010
Equity		
Called up share capital	9.2	9.2
Share premium account	0.5	0.4
Other reserve	(280.1)	(280.1)
ESOP reserve	(2.6)	(2.4)
Hedging reserve	(2.1)	(0.5)
Retained earnings	214.9	211.0
Total equity	(60.2)	(62.4)

The accounts were approved by the Board of Directors and authorised for issue on 20 October 2011 and were signed on its behalf by:

Registered number - 05195191

Mark Cashmore
Group Chief Executive

Nick Gresham
Chief Financial Officer

Smiths News PLC

Group Statement of Changes in Equity for the year ended 31 August 2011

£m	Share Capital	Share Premium Account	Other Reserve ¹	ESOP Reserve	Hedging Reserve	Retained Earnings	Total
Balance at 1 September 2009	9.1	-	(280.1)	(3.4)	(1.4)	207.4	(68.4)
Profit for the period	-	-	-	-	-	21.2	21.2
Gain on cash flow hedges	-	-	-	-	0.9	-	0.9
Actuarial gain on defined benefit pension scheme	-	-	-	-	-	14.5	14.5
Effect of asset limit on defined benefit pension scheme	-	-	-	-	-	(21.9)	(21.9)
Tax relating to components of other comprehensive income	-	-	-	-	-	2.1	2.1
Total comprehensive income for the year	-	-	-	-	0.9	15.9	16.8
Issue of share capital	0.1	0.4	-	-	-	-	0.5
Dividends paid	-	-	-	-	-	(12.6)	(12.6)
Employee share schemes	-	-	-	1.0	-	(1.0)	-
Recognition of share based payments	-	-	-	-	-	1.3	1.3
Balance at 31 August 2010	9.2	0.4	(280.1)	(2.4)	(0.5)	211.0	(62.4)
Profit for the period	-	-	-	-	-	21.9	21.9
Loss on cash flow hedges	-	-	-	-	(1.6)	-	(1.6)
Actuarial loss on defined benefit pension scheme	-	-	-	-	-	(21.7)	(21.7)
Effect of asset limit on defined benefit pension scheme	-	-	-	-	-	14.4	14.4
Tax relating to components of other comprehensive income	-	-	-	-	-	2.4	2.4
Total comprehensive income for the year	-	-	-	-	(1.6)	17.0	15.4
Issue of share capital	-	0.1	-	-	-	-	0.1
Dividends paid	-	-	-	-	-	(13.8)	(13.8)
Employee share schemes	-	-	-	(0.2)	-	(0.2)	(0.4)
Recognition of share based payments	-	-	-	-	-	0.9	0.9
Balance at 31 August 2011	9.2	0.5	(280.1)	(2.6)	(2.1)	214.9	(60.2)

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

Smiths News PLC
Group Cash Flow Statement for the year ended 31 August 2011

£m	Note	2011	2010
Net cash inflow from operating activities	10	25.2	24.7
Investing activities			
Interest received		0.1	-
Acquisition of Dawson Holdings plc		(17.9)	-
Purchase of property, plant and equipment		(2.3)	(6.3)
Purchase of intangible assets		(0.8)	(2.3)
Net cash used in investing activities		(20.9)	(8.6)
Financing activities			
Interest paid		(4.9)	(2.6)
Dividend paid		(13.8)	(12.6)
Repayments of obligations under finance leases		(1.6)	(2.2)
Proceeds on issue of shares		0.1	0.5
Purchase of shares for EBT		(0.3)	-
Increase/(decrease) in borrowings		6.0	(5.0)
Increase in revolving credit facility		10.4	5.5
Net cash used in financing activities		(4.1)	(16.4)
Net increase/(decrease) in cash and cash equivalents		0.2	(0.3)
Opening net cash and cash equivalents		4.0	4.3
Closing net cash and cash equivalents		4.2	4.0

Smiths News PLC

Notes to the preliminary announcement

1. Preparation of the preliminary announcement

(a) Basis of preparation

Whilst the financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS), this announcement does not itself contain sufficient information to comply with IFRSs.

The preliminary announcement for the 12 months to 31 August 2011 has been prepared on the basis of the accounting policies set out in the accounting policies section of the Smiths News PLC Annual Report and Accounts 2011.

As detailed in Note 11, the Group has committed bank facilities in place of £135m, plus additional flexibility to secure further borrowings on Group assets of up to £35m. The Group's forecasts and projections, taking account of reasonable potential variations in trading performance and the Group's negative working capital position, show that the Group should be able to operate within the level of its current financing for the foreseeable future.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus the Group continues to adopt the going concern basis in preparing its consolidated financial statements.

(b) Preliminary announcement

The financial information set out above does not constitute the Group's statutory accounts for the years ended 31 August 2010 or 2011, but is derived from those accounts. The statutory accounts for Smiths News PLC for the 12 months ended 31 August 2010 have been delivered to the Registrar of Companies and those for the 12 months ended 31 August 2011 will be delivered following the company's annual general meeting.

The auditors have reported on those accounts; their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under s498(2) or (3) Companies Act 2006.

The Company intends to publish the Annual Report and Accounts that comply with IFRSs. The Annual Report and Accounts will be available for shareholders in December 2011 at www.smithsnews.co.uk.

Smiths News PLC
Notes to the preliminary announcement

2. Segmental analysis

In accordance with IFRS 8 Operating Segments, Group management has identified its operating segments. The performance of these operating segments is reviewed, on a monthly basis, by the Board.

These operating segments are:

- Newspaper and Magazine wholesaling (referred to as Smiths News).
- Book wholesaling (referred to as Bertrams and Dawson Books).
- Media and Marketing services (referred to as DMD and DMS).

Revenue and results

£m	Newspaper & ⁽⁵⁾ magazine wholesaling		Book ⁽⁵⁾ Wholesaling		Media & ⁽⁵⁾ marketing		Consolidated	
	2011	2010	2011	2010	2011	2010	2011	2010
Continuing								
Revenue	1,600.7	1,692.5	132.9	137.1	0.8	-	1,734.4	1,829.6
Underlying operating profit	38.0	33.1	3.7	4.0	-	-	41.7	37.1
Non-recurring and other items	(4.9)	(5.4)	(1.6)	(1.5)	-	-	(6.5)	(6.9)
Operating profit	33.1	27.7	2.1	2.5	-	-	35.2	30.2

Information about major customers

Included in revenues arising from Newspaper and magazine wholesaling are revenues of approximately £180m (2010: £181m) which arose from the sales to the Group's largest customer.

Smiths News PLC
Notes to the preliminary announcement

2. Segmental analysis (continued)

Segment assets

£m	2011	2010
Newspaper & magazine wholesaling	150.2	130.4
Book wholesaling	47.8	50.8
Media & marketing	14.0	-
Consolidated total assets	212.0	181.2

The Board monitors the tangible, intangible and financial assets attributable to each segment to determine the allocation of resources and the performance of each segment. Goodwill and acquired intangible assets have been allocated to the Book wholesaling segment £24.4m (2010: £7.9m) and Media and Marketing £8.3m (2010: nil). The £0.8m asset held for sale in the Book wholesaling segment relates to the Leeds Library Services property exited in July 2010. The sale of this property was completed on 11 October 2011 for £0.8m.

Segment liabilities

£m	2011	2010
Newspaper & magazine wholesaling	(212.1)	(211.8)
Book wholesaling	(48.2)	(31.8)
Media & marketing	(11.9)	-
Consolidated total liabilities	(272.2)	(243.6)

Other segment information

£m	Depreciation and amortisation		Additions to non-current assets	
	2011	2010	2011	2010
Newspaper & magazine wholesaling	(6.2)	(6.5)	2.6	7.6
Book wholesaling	(1.5)	(1.7)	18.6	1.8
Media & marketing	-	-	8.5	-
Consolidated total	(7.7)	(8.2)	29.7	9.4

Geographical analysis

£m	Revenue by destination		Non-current assets by location of operation	
	2011	2010	2011	2010
United Kingdom	1,703.7	1,806.6	60.3	39.0
Europe	16.8	11.8	2.3	-
Rest of World	13.9	11.2	-	-
Consolidated total	1,734.4	1,829.6	62.6	39.0

Smiths News PLC
Notes to the preliminary announcement

3. Operating profit

The Group's results are analysed as follows:

£m	2011			2010		
	Underlying	Non-recurring and other items	Total	Underlying	Non-recurring and other items	Total
Revenue	1,734.4	-	1,734.4	1,829.6	-	1,829.6
Cost of sales	(1,574.3)	-	(1,574.3)	(1,652.6)	-	(1,652.6)
Gross profit	160.1	-	160.1	177.0	-	177.0
Distribution costs	(80.9)	(1.7)	(82.6)	(95.9)	(5.8)	(101.7)
Administrative expenses	(37.5)	(4.8)	(42.3)	(44.0)	(1.1)	(45.1)
Operating profit	41.7	(6.5)	35.2	37.1	(6.9)	30.2

The operating profit is stated after charging/(crediting):

£m	2011	2010
Cost of inventories recognised as an expense	1,496.3	1,580.0
Write down of inventories recognised as an expense	0.1	0.8
Fees payable to the company's auditors for the audit of the company's subsidiaries pursuant to legislation	0.2	0.2
Fees payable to the company's auditors for other services	-	0.1
Depreciation and amounts written off property, plant & equipment	5.3	5.9
Amortisation of intangible assets	2.4	2.3
Operating lease charges		
• Occupied land and buildings	8.6	10.5
• Vacant land and buildings	2.1	2.1
• equipment and vehicles	2.6	2.6
Operating lease rental income – land and buildings	(0.4)	(0.4)
Loss on disposal of fixed assets	0.4	0.2
Impairment of held for sale property	0.1	-
Staff costs	96.6	109.9
Share of profits from jointly controlled entities and associates	(0.3)	(0.1)

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3. Operating profit (continued)

Fees associated with the audit of the Company's annual accounts are included within the audit of the Company's subsidiaries fees and are £5,000 (2010: £5,000).

Included within Fees payable to the Company's auditors for their services is £17,000 (2010: £102,000) relating to consultancy services and £23,000 (2010: £29,000) relating to remuneration services.

Non-recurring and other items

£m	Re- organisation and Integration costs	Amortisation of acquired intangibles	Acquisition costs	Property provisions	2011 Total	2010 Total
Operating loss	(2.7)	(0.9)	(2.4)	(0.5)	(6.5)	(6.9)
Non-recurring loss before tax	(2.7)	(0.9)	(2.4)	(0.5)	(6.5)	(6.9)
Income tax credit/ (charge)	0.4	0.2	0.2	(0.6)	0.2	1.7
Non-recurring loss after tax	(2.3)	(0.7)	(2.2)	(1.1)	(6.3)	(5.2)

The Group incurred a total of £6.3m in non-recurring and other costs, after tax.

Reorganisation and integration costs

A review of the organisation with a focus on reducing head office costs and ensuring that the right capabilities and organisational design are in place to meet the Group's strategies incurred total project costs of £1.0m, comprising £0.6m of redundancy and £0.4m of consultancy costs.

A further £1.7m of redundancy costs has been incurred within the house network from a restructuring program designed to deliver part of the £30m of costs savings targeted by the Group.

Acquisition costs

Represent £1.7m of advisor fees and £0.7m of exit costs associated with the acquisition of Dawson Holdings PLC completed on 23 August 2011.

Property provisions

Property provisions increased by £0.5m as a result of additional costs expected from reversionary leases.

Amortisation of acquired intangibles

Intangible assets relating to the acquisition of Bertrams are amortised over their expected economic lives. The charge to the income statement in the year to 31 August 2011 is £0.9m (2010: £0.9m) for which there is no associated cash impact. The remaining net book value of the acquired intangible assets relating to Bertrams at 31 August 2011 is £2.9m.

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4. Retirement benefit obligation

Pension arrangements for employees are operated through a defined benefit scheme, WH Smith Pension Trust ('Pension Trust'), and a defined contribution scheme, WH Smith Retirement Savings Plan. The most significant is the Pension Trust, which is described below. The scheme is independent of the Company and is administered by a Trustee. The Trustee of the Pension Trust has extensive powers over the pension plan's arrangements, including the ability to determine the levels of contribution.

The amounts recognised in the balance sheet in relation to these plans are as follows:

£m	2011	2010
Present value of the obligation	(348.3)	(367.4)
Fair value of plan assets	375.1	408.6
Surplus	26.8	41.2
Amounts not recognised due to asset limit	(26.8)	(41.2)
Retirement benefit obligation recognised in the balance sheet	-	-

The pension scheme is closed to further accrual and given the LDI policy adopted by the Pension Trustee, the present value of the economic benefits of the IAS 19 surplus in the pension scheme of £26.8m (2010: £41.2m) available on a reduction of future contributions is £nil (2010: £nil). As a result the Group has not recognised this IAS 19 surplus on the balance sheet.

The valuation of the defined benefit pension scheme used for the IAS 19 disclosures is based upon the most recent actuarial valuation. The 31 March 2009 triennial valuation produced an actuarial deficit of £50m. A revised deficit funding schedule of £5.8m per annum has been agreed for the next ten years with the trustees. Scheme assets are stated at their market value at the relevant reporting date.

The Pension Trust

The majority of the assets in the investment fund are structured such that they are expected to alter in value in line with changes in the pension liability caused by changes in interest and inflation (a Liability Driven Investment 'LDI'). The volatility in interest rate and inflation is minimised through hedging.

The key features of the investment policy are:

- 95% of the Pension Trust's assets are invested in an LDI policy with a leading international institutional fund manager; and
- 5% of the Pension Trust's assets are used to purchase a portfolio of long-dated equity call-spreads. These represent a notional exposure to underlying equities of some £202m.

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4. Retirement benefit obligation (continued)

Movements in the present value of the defined benefit scheme obligation during the year were as follows:

£m	2011	2010
At 1 September	(367.4)	(338.1)
Current service cost	(0.1)	(0.1)
Interest cost	(17.6)	(17.6)
Actuarial gains/ (losses)	24.1	(24.6)
Benefits paid	12.7	13.0
At 31 August	(348.3)	(367.4)

During the period the adoption of CPI rather than RPI to value deferred members benefits, in line with a UK government announcement, had reduced scheme liabilities by £15.7m, which is taken as an actuarial gain within Other Comprehensive Income.

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

£m	2011	2010
At 1 September	408.6	357.4
Expected return on scheme assets	18.7	18.6
Net actuarial (losses)/ gains	(45.8)	39.1
Contributions	6.3	6.5
Benefits paid	(12.7)	(13.0)
At 31 August	375.1	408.6

Included in the actuarial gains and losses is the funding spread of the total return swaps (£39.9m), which is taken as the an actuarial loss within Other Comprehensive Income.

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5. Investment revenues

£m	2011	2010
Interest on bank deposits	0.1	-
Net change in fair value of derivative liabilities designated as fair value through profit and loss	-	0.1
Net income on pension scheme	1.1	1.0
Investment revenues	1.2	1.1

6. Finance costs

£m	2011	2010
Interest on bank overdrafts and loans	3.8	2.9
Interest payable on finance leases	0.2	0.2
Unwinding of discount on provisions	0.3	0.1
Finance costs	4.3	3.2
Net finance costs	3.1	2.1

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7. Income tax expense

£m	Underlying	Non-recurring and other items	2011 Total	Underlying	Non-recurring and other items	2010 Total
Current tax	11.3	-	11.3	9.8	-	9.8
Current tax – non-recurring items	-	(1.1)	(1.1)	-	(1.7)	(1.7)
Adjustment in respect of prior year UK corporation tax	(0.5)	0.9	0.4	(1.4)	-	(1.4)
Total current tax charge	10.8	(0.2)	10.6	8.4	(1.7)	6.7
Deferred tax – current year	(0.4)	-	(0.4)	(0.1)	-	(0.1)
Deferred tax – prior year	-	-	-	0.3	-	0.3
Total tax on profit	10.4	(0.2)	10.2	8.6	(1.7)	6.9
<i>Effective tax rate</i>	<i>26.9%</i>		<i>31.8%</i>	<i>24.6%</i>		<i>24.6%</i>

The effective underlying income tax rate for the year was 26.9% (2010: 24.6%). After adjusting for the impact of non-recurring and other items of £0.2m (2010: £1.7m), the effective statutory income tax rate was 31.8% (2010: 24.6%).

Reconciliation of the tax charge

£m	2011	2010
Profit before tax	32.1	28.1
Tax on profit at the standard rate of UK corporation tax 27% (2010: 28%)	8.7	7.9
Permanent differences	1.2	0.3
Share schemes	(0.1)	(0.2)
Adjustment in respect of prior year UK deferred tax	-	0.3
Adjustment in respect of prior year UK corporation tax	0.4	(1.4)
Total tax charge	10.2	6.9

In addition to the amount charged to the income statement, current tax relating to the defined benefit pension scheme amounting to £2.0m (2010: £2.0m) together with deferred tax relating to derivative financial instruments £0.4m (2010: £0.1m) has been recognised directly in other comprehensive income (see the Group Statement of Comprehensive Income).

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8. Dividends

Amounts recognised as distributions to equity shareholders in the year are as follows:

£m	2011	2010
Final dividend for the year ended 31 August 2010 of 5.0p (2009: 4.6p) per share	9.1	8.3
Interim dividend for the year ended 31 August 2011 of 2.6p (2010: 2.4p) per share	4.7	4.3
	13.8	12.6

The proposed final dividend for the year ended 31 August 2011 of 5.4p is subject to approval by shareholders at the Annual General Meeting on 27 January 2012 and has not been included as a liability in these accounts. The proposed dividend, if approved, will be paid on 3 February 2012 to shareholders on the register at close of business on 6 January 2012.

9. Earnings per share

£m	2011	2010
Profit for the financial year	21.9	21.2
Non-recurring and other items	6.3	5.2
Underlying profit for the financial year	28.2	26.4

	Number m	Number m
Weighted average number of shares in issue	183.4	183.1
Shares held by ESOP (weighted)	(2.0)	(2.5)
Weighted average number of shares in issue for basic earnings per share	181.4	180.6
Shares issuable (weighted)	2.9	3.3
Weighted average number of shares in issue for diluted earnings per share	184.3	183.9

	Pence	Pence
Earnings per share:		
Basic	12.1	11.7
Diluted	11.9	11.5
Underlying earnings per share:		
Basic	15.5	14.6
Diluted	15.3	14.4

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10. Net cash inflow from operating activities

£m	2011	2010
Operating profit	35.2	30.2
Adjustment for pension funding	(6.2)	(6.4)
Depreciation of property, plant and equipment	5.3	5.9
Amortisation of intangible assets	2.4	2.3
Share based payments	0.9	1.3
Decrease/ (increase) in inventories	3.7	(7.0)
Decrease in receivables	1.8	15.6
Decrease in payables	(19.0)	(10.0)
Income tax paid	(1.7)	(4.7)
Increase/ (decrease) in provisions	2.8	(2.5)
Net cash inflow from operating activities	25.2	24.7

11. Borrowings

£m	2011	2010
Term loan – disclosed within current liabilities	-	33.2
Term loan – disclosed within non-current liabilities	39.2	-
Revolving credit facility	26.0	15.6
Total borrowings	65.2	48.8
Total borrowings		
Amount due for settlement within 12 months	26.0	48.8
Amount due for settlement after 12 months	39.2	-
	65.2	48.8

All borrowings are in sterling. There were no breaches of the loan agreement during either the current or prior years.

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11. Borrowings (continued)

The other principal features of the Group's borrowings are as follows:

At year end the Group has available bank facilities in place of £135m, plus a further committed asset backed facility of up to £35m. Facilities in place at the year end were;

- a £40m term loan of which £3m is repayable in September 2012 and September 2013, £4m is repayable in September 2014 with the balance 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. This facility was put in place at the time of the acquisition of Bertrams and is repayable in November 2014.

There are interest rate hedges in place until November 2014 stated at an average effective rate of 3.7%, which at 31 August 2011 covered £60m of the core debt.

A new banking facility was agreed on 27 August 2010 with a syndicate of 5 major lenders. At the prior year end of 31 August 2010 the term loan was drawn under the facility that was due to expire on 26 June 2011, and was consequently shown as a creditor within current liabilities.

The weighted average interest rates paid during the year were as follows:

	2011	2010
%		
Term loan	2.9	4.1
Revolving credit facility	2.2	1.2

Undrawn borrowing facilities

At 31 August 2011, the Group had available £84.8m (2010: £106.1m) of undrawn committed borrowing facilities.

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12. Provisions

£m	Reorganisation provisions	Property provisions	Total
Gross provision:			
At 1 September 2010	1.3	7.8	9.1
Additions	2.7	3.4	6.1
Acquisition of subsidiary	-	0.4	0.4
Utilised in year	(2.7)	(1.7)	(4.4)
At 31 August 2011	1.3	9.9	11.2
Discount:			
At 1 September 2010	-	(2.2)	(2.2)
Additions	-	(0.3)	(0.3)
Unwinding of discount utilisation	-	0.3	0.3
At 31 August 2011	-	(2.2)	(2.2)
Net book value at 31 August 2011	1.3	7.7	9.0
Gross provision:			
At 1 September 2009	4.1	6.6	10.7
Additions	1.5	1.9	3.4
Utilised in year	(3.6)	(0.7)	(4.3)
Released unutilised	(0.7)	-	(0.7)
At 31 August 2010	1.3	7.8	9.1
Discount:			
At 1 September 2009	-	(2.3)	(2.3)
Unwinding of discount utilisation	-	0.1	0.1
At 31 August 2010	-	(2.2)	(2.2)
Net book value at 31 August 2010	1.3	5.6	6.9
£m		2011	2010
Included within current liabilities		4.1	5.0
Included within non-current liabilities		4.9	1.9
Total		9.0	6.9

The property provision represents the estimated future cost of the Group's onerous and reversionary leases in non-trading properties based on known and estimated rental sub-leases. This provision has been discounted at 8% (being the Group's risk adjusted pre-tax WACC), and this discount will be unwound over the life of the leases. The provision is expected to be utilised over the period to 2019, when all of the leases that have been provided against will have expired.

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13. Acquisition of Dawson Holdings PLC

On 23 August 2011, the Group acquired 100% of the share capital of Dawson Holdings PLC. The cost of the acquisition was £20.6m. Acquisition expenses of £1.7m were incurred which have been recognised in the income statement within non-recurring and other items. A further £0.7m of exit costs have also been incurred.

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

£m	Book value	Provisional fair value adjustments	Provisional fair value
Intangible assets	0.2	7.8	8.0
Property, plant and equipment	1.2	(0.9)	0.3
Investments	1.0	(0.8)	0.2
Deferred tax assets	-	0.6	0.6
Inventories	0.4	-	0.4
Trade and other receivables	13.4	(0.6)	12.8
Cash and cash equivalents	4.1	-	4.1
Trade and other payables	(19.9)	(1.6)	(21.5)
Deferred tax liability	(0.2)	(2.0)	(2.2)
Net identifiable assets and liabilities	0.2	2.5	2.7
Cash transferred as consideration			(20.6)
Provisional estimate of goodwill			17.9
Cash consideration			(20.6)
Less; cash and cash equivalent balances acquired			4.1
Acquisition costs paid by year end			(1.4)
Net cash outflow arising on acquisition			(17.9)

The goodwill arising on the acquisition reflects the significant level of synergies that will be realised following the acquisition estimated at £3.8m per annum, which are not used in the valuation of the intangible assets noted above. The goodwill also reflects the strategic importance of broadening the activities of the Group and the value attributed to the existing management and workforce.

Dawson Holdings PLC contributed £1.9m to revenue and £42,000 to profit before tax for the period between the 23 August 2011 and the balance sheet date.

If the acquisition of the business and assets of Dawson Holdings PLC had been completed on the first day of the financial year, Group revenues for the period would have been £78.6m higher and Group profit attributable to equity holders of the parent would have increased by £1.4m.

The fair value adjustments recognised above are required to reflect the market value of the assets acquired, and the liabilities assumed, at the date of acquisition.

The provisional remaining goodwill acquired is not deductible for tax purposes.

The acquired trade and other receivables have a fair value £12.8m and a gross contractual value of £14.1m. The best estimate, at the acquisition date, of the contractual cashflows not to be collected is £1.3m.

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14. Operating lease commitments

The group as lessee:

Minimum lease payments under non-cancellable operating leases are as follows:

£m	2011			2010		
	Land & buildings	Equipment & vehicles	Total	Land & buildings	Equipment & vehicles	Total
Within one year	9.9	1.6	11.5	8.8	1.0	9.8
In the second to fifth years inclusive	29.3	1.9	31.2	28.7	0.8	29.5
In more than five years	38.3	-	38.3	29.5	-	29.5
	77.5	3.5	81.0	67.0	1.8	68.8

The Group leases various distribution properties and plant and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The group as lessor:

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

£m	2011	2010
Within one year	0.2	0.3
In the second to fifth years inclusive	0.2	0.7
	0.4	1.0

Property rental income earned during the year was £0.4m (2010: £0.4m).

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15. Related party transactions

Transactions between businesses within this Group, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Trading transactions

	Sales to related parties		Amounts owed by related parties	
	2011	2010	2011	2010
£m				
Jointly controlled entities	0.4	0.4	-	-

Sales to related parties are for management fees, payment is due on the last day of the month following the date of invoice.

Non-trading transactions

	Loan to related parties	
	2011	2010
£m		
Jointly controlled entities	0.6	0.3

The loan to related parties has no set date for repayment and accrues interest at LIBOR + 2%.

Remuneration of key management personnel

The remuneration of the directors and the executive management team, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures.'

	2011	2010
£m		
Short-term employee benefits	1.8	2.3
Post-employment benefits	-	0.2
Share based payments	0.8	0.8
	2.6	3.3

Directors' transactions

There are no other transactions with directors.

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16. Responsibility statement

The responsibility statement below has been prepared in connection with the Group's full annual report for the year ending 31 August 2011. Certain parts thereof are not included within this announcement.

We confirm that to the best of our knowledge:

- the accounts prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit and loss of the company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated in the directors' report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face

The responsibility statement was approved by the board of directors on 20 October 2011 and is signed on its behalf by:

Mark Cashmore
Group Chief Executive

Nick Gresham
Chief Financial Officer