

Glossary

In order to aid clarity the following terms are used throughout the Annual Report and Financial Statements 2009:

Acquisition of Bertrams the acquisition of the business and certain assets from the Bertram group of companies, formerly being known as (i) Bertram Group Limited (In Administration) (ii) Bertram Trading Limited (In Administration) and (iii) Bertram Books Limited (In Administration).

Bertrams the businesses operated by a subsidiary of Smiths News PLC, Bertram Trading Limited comprising Bertram Books, Bertram Library Services and Bertram Publisher Services.

Dawson News the news and magazine wholesaling business operated by (i) Surridge Dawson Limited (In Administration) and (ii) Solent SD Limited (In Administration), together formerly trading as 'Dawson News'.

The Group Smiths News PLC and its subsidiaries.

Rascal Rascal Solutions Limited, a 50/50 joint venture between Smiths News and the Kemble family.

Smiths News the businesses operated by a subsidiary of Smiths News PLC, Smiths News Trading Limited comprising Smiths News, InStore, NewsWorks and The Returns Company.

Smiths News PLC, registered in England and Wales with registered no. 5195191.

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Smiths News PLC

£459m: That's the value of our contract gains this year.

Smiths News PLC specialises in intelligent logistics and supply chain partnerships.

The recent contract wins have transformed our core market of news distribution and we are expanding further into complementary areas. In March 2009 we acquired Bertrams, a leading book wholesaler.

SmithsNews

8,000: That's how many new customers joined Smiths News in 2009.

We have increased our market share from 39% to 55%. We're a big organisation, but we care about our 30,000 customers.

As well as distributing the news, we collect and process returns, supply valuable sales data to publishers and provide a range of value adding services to our retail customers.

8,000

Bertrams

45%: That's the share of the wholesale book market served by Bertrams, a leading book wholesaler.

In March 2009 Smiths News PLC acquired Bertrams as part of our strategy to enter new and complementary markets.

Bertrams consists of Bertram Books, the book wholesaler, Bertrams Library Services, the UK's biggest library supply business, and Bertrams Publisher Services, providing distribution to publishers. Bertrams stocks 220,000 titles for next day delivery.



Chairman's Statement

Last year I began my statement by recounting a story that epitomised the service ethic of Smiths News: with only 72 hours notice we were called upon and succeeded in taking over the distribution of 55,000 daily newspapers of a regional wholesaler that had gone into receivership.

This year, we were faced with a strikingly similar situation but on a truly unprecedented scale: the country's third largest national wholesaler, Dawson News, was about to go into administration and unless we took decisive action the industry supply chain could collapse. Working literally around the clock and on short notice, the Smiths News team absorbed 20 depots and 1,800 staff from Dawson News into our network. On 2 August 2009, we commenced the distribution of an additional 3.5 million daily newspapers and 9 million magazines a week to 5,000 retailers, on time and without any disruption to the industry.

This was the culmination of the major events in what has been a truly exceptional year. We entered the financial year with a newspaper and magazine business with annual revenues of £1.27bn; we now start the current year with projected revenues of £1.7bn. This is a result of the award of a series of five-year distribution contracts that flowed throughout the year from the country's national newspaper and magazine publishers and also from regional newspaper publishers. These contract gains have resulted in an increase in our national market share from 39% to some 55%.

In our time sensitive newspaper and magazine business, the key to success is very simple: deliver the best in class service at the lowest cost to serve. The award of these contracts was determined by these criteria. It is therefore a testament to the dedication, professionalism and relentless drive of all of our colleagues who day-in-day-out strive to deliver on these success factors. I am delighted that their efforts have been so amply and tangibly recognised. There can be no better example of our people being our greatest asset.

In pursuit of our strategy of diversifying into new markets and building on skills and competencies that we already possess, we acquired the book wholesaler, Bertrams. Bertrams is a leading and well-respected player in its market with a strong management team and has performed ahead of the Board's expectations.

The Group has also demonstrated its resilience in what has been an extremely tough economic environment. Underlying profit before tax of £30.5m was down 6.2% on last year but the business generated free cash flow of £23.7m. Given the Board's confidence in the future prospects for the Group and its strong cash flow characteristics, an increased final dividend of 4.6p per share has been proposed, making a full year dividend of 6.8p, up 1.5% on last year.

In September, the Office of Fair Trading announced that it would not refer the newspaper and magazine distribution sector to the Competition Commission. This confirms its provisional decision in 2008 not to do so. This is a welcome development for the industry and will enable Smiths News to concentrate on what it does best: serving customers.

This year has once again demonstrated the strength and depth of our people. I would particularly like to thank Mark Cashmore and the Executive team for their leadership of the business and my colleagues on the Board for their support in what has been a demanding, albeit exciting, year.

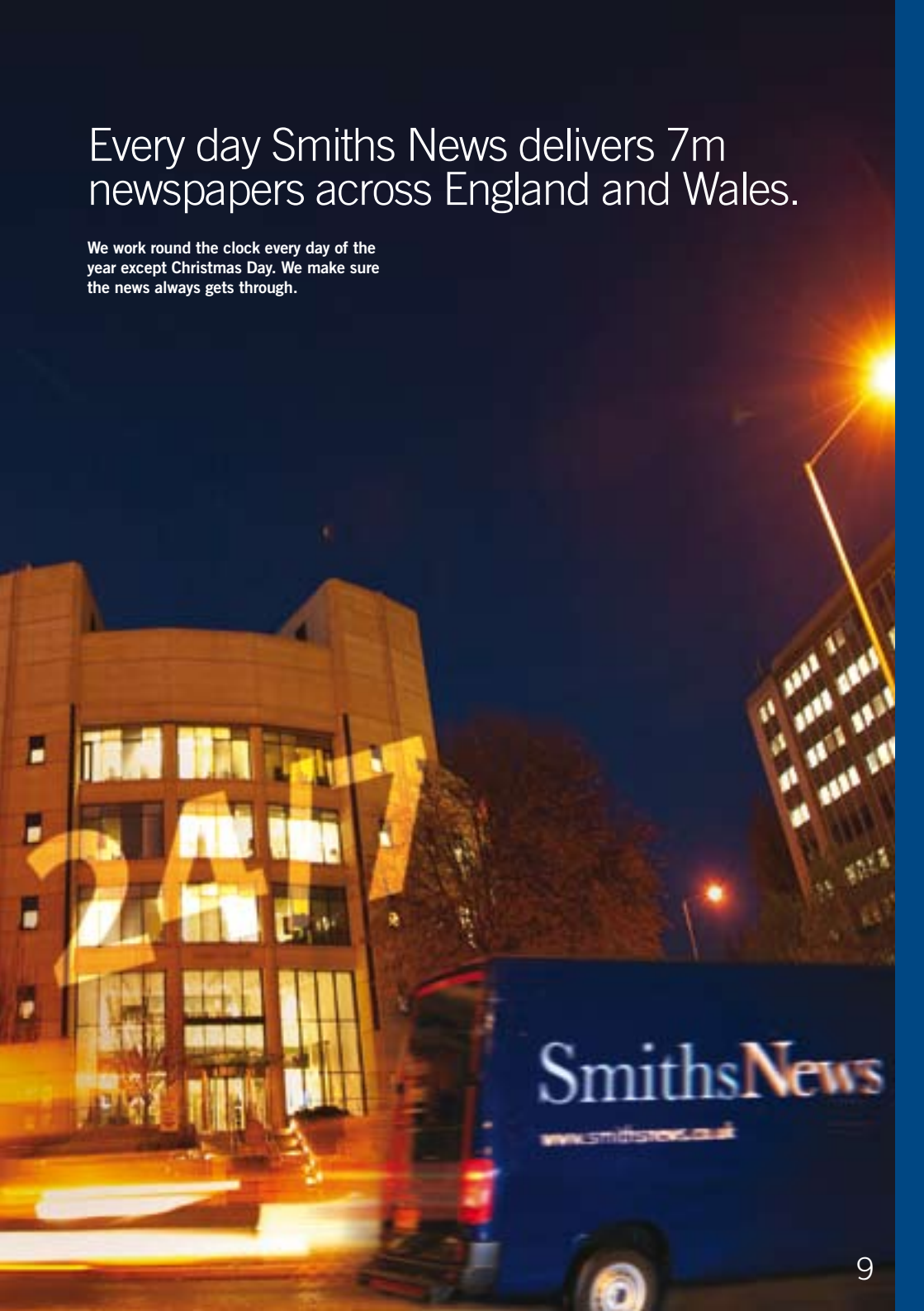
The Group has made excellent progress and we are now a significantly larger and broader based business. In the year ahead, we expect the UK economic environment to remain tough but with the commitment of our colleagues, which is demonstrated every day of the year, and the opportunities we have to improve our profitability we can look to the future with confidence.

Dennis Millard
Chairman

This year has once again demonstrated the strength and depth of our people

Every day Smiths News delivers 7m newspapers across England and Wales.

We work round the clock every day of the year except Christmas Day. We make sure the news always gets through.



Business Review

Operating Review

Chief Executive's Operating Review

In what has been an extraordinary year, we have made excellent progress towards our strategic goals, including new contract wins that will transform our scale and competitive position, and the acquisition of Bertrams, which is an important first step towards diversifying the Group. In August we took responsibility for 20 depots and associated staff from Dawson News, bringing forward the implementation of our contract wins. The transfer has been implemented with the high standard of service for which we are known. As a consequence, the business finishes the year materially stronger, with new opportunities for growth and diversification.

I am pleased to report a solid financial performance in difficult market conditions. Underlying profit before tax of £30.5m decreased by 6.2%, a reflection of the tough market conditions in newspapers and magazines. The Group continued to generate a strong cash flow of £23.7m. Total dividend for the year of 6.8p represents an increase of 1.5%.

In March, the Group acquired the business and assets of Bertrams from the Administrator of the Woolworths Group, our first significant entry into a complementary market. Bertrams, the UK's longest established book wholesaler, has similar characteristics to Smiths News, serving a diverse customer base with an offer based on service and efficiency. Bertrams has an approximate 45% share of the book wholesaling market. It is a business that fits well with the Group both culturally and strategically. We are pleased with the early progress of Bertrams and its integration into the Group.

Early in 2009 the majority of the national newspaper and magazine publishers invited tenders for new distribution contracts. Smiths News was successful in its overall approach to the tenders, increasing its market share of newspaper and magazine distribution from circa 39% to 55%. This was a spectacular result and a clear endorsement of the strategy we have pursued over the last three years. The contract wins will transform the scale of Smiths News, offering new opportunities for efficiency savings as well as providing retailers and publishers with a more consistent and higher standard of service.

In July, Smiths News commenced distribution to the new contract areas awarded by News International in June 2008. The News International contract expanded our operating areas to include Bristol, Brighton, Coventry Harlow, Luton, Swindon and Warrington. This expansion of our network involved 2,900 new customers and increased our market share of News International business from 24% to 39%. As the time of transfer neared, at News International's request, we started delivery to some areas two weeks ahead of schedule. The planning for the News International contracts also helped us to prepare for the further new territories that would unexpectedly follow in August.

Following the award of the publisher contracts, Dawson News (having been unsuccessful in the contract tender process) carried out a strategic review, concluding it needed to seek an orderly exit from the market. It was equally clear that the financial difficulties of Dawson News risked an immediate and damaging failure of the supply chain. As a consequence, in August 2009 Smiths News assumed responsibility for the leases of 20 depots and connected staff from Dawson News, reaching parallel agreements with our publishers for the associated distribution contracts.

In effect, this meant our entry into the new territories would commence up to 18 months earlier than expected. This was a huge undertaking, carried out with minimal notice and requiring a massive collective effort from everyone in the business. It is a tribute to the dedication and professionalism of our staff, including our new colleagues from Dawson News, that we achieved such a major transition with minimal disruption.

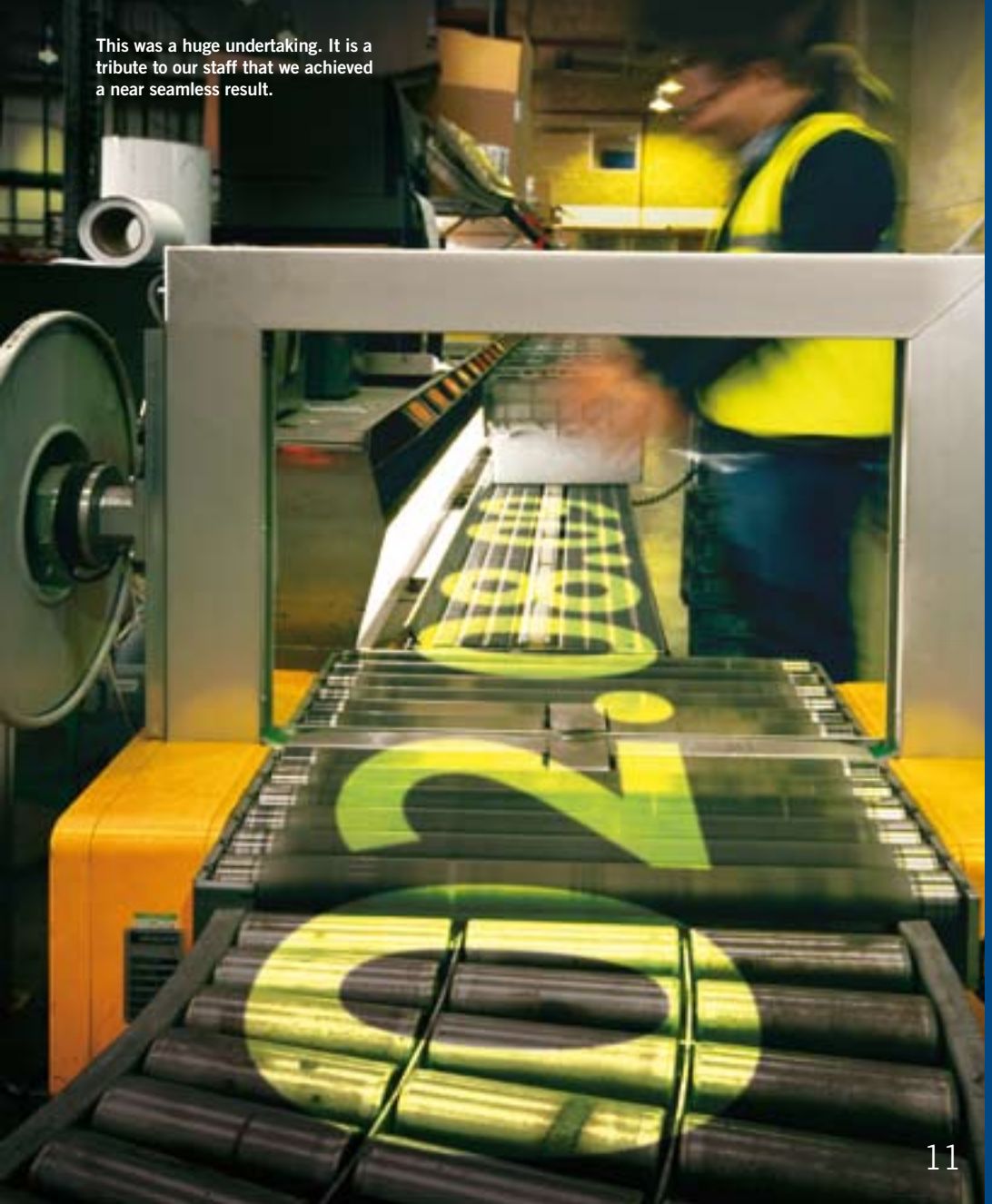
The new contract gains will increase our revenues in 2010. However, the integration of the new contracts will result in a series of one-off costs covering redundancy payments, IT and process changes. These will impact on our costs and cash flow over the next 12 to 18 months. The new depots are currently reliant on legacy processes and technology; this is significantly less efficient than our core business, which is supported by SAP. We have already begun installing SAP into the new depots, as this is essential to reducing their operating costs and raising service standards.

In such a remarkable year it is easy to forget the progress we have made on the core operation. Our tight control on costs has continued, with cost savings of £3.3m achieved throughout Smiths News. Service too improved, with more depots achieving the highest standards of performance and consistency. I have no doubt that our relentless drive in these core objectives has been the foundation of our success. We continue to target, at a minimum, the offset of inflation as a benchmark for efficiency improvements, and we have much work to do to ensure the new depots are operating to the market leading standards we expect.

Looking ahead, the prospects of the Group are stronger than ever. Despite the toughest market conditions for some years we returned a solid financial performance, demonstrating our resilience and determination to succeed. As we enter our new financial year, the Group is transformed from its position 12 months ago, with new opportunities and the ambition to match. Most importantly, we can take confidence in our people, whose drive for excellence is demonstrated daily. They can be justly proud of what they have achieved and I would like to thank them all for their contributions this year.

On Sunday 2 August we took on 20 depots and 5,000 retailers all in one go.

This was a huge undertaking. It is a tribute to our staff that we achieved a near seamless result.



Business Review

Operating Review

Markets

Newspapers and Magazines

The market for newspaper and magazine distribution has been tough, sales being affected by the general reduction in consumer spending. Newspaper price increases failed fully to compensate for volume declines but the overall market value was marginally up after allowing for the temporary and promotional price cutting on some titles. As anticipated, the magazine market performed less strongly with reductions in volume and value across most market segments; overall the magazine market value was down 7.6%. Despite these declines, Smiths News performed well ahead of the market, driven by new contract gains.

Books

The total value of books sold to consumers in the UK was down by 1.3% in the first half of 2009 (The Group acquired Bertrams in March 2009). Bertrams' performance was ahead of this trend despite sales being adversely affected by the administration of the Woolworths Group and consequent impact on stock levels. Since its acquisition by the Group, Bertrams has performed well, regaining market share and having particularly strong sales in the Internet and International sectors.

Group Strategy and Objectives

The Group aims to be the market leader in newspaper, magazine and book distribution, and a major player in new markets that build on our skills and competencies, creating demonstrable value for shareholders.

We plan to deliver profit growth and cash generation to our shareholders by following clear focused strategies that benefit all stakeholders.



Kerrie Colford
- PR Manager, launching new corporate website

'The company has grown and developed enormously since demerger in 2006. This year's contract wins and the acquisition of Bertrams were transformational and we needed a website that reflected what's happening in the business. We set ourselves high standards for what we wanted the site to achieve. After researching what our stakeholders wanted, we added a lot of new tools, including a whole new interactive investor centre. Do take a look at www.smithsnews.co.uk'

Looking ahead, the prospects of the Group are stronger than ever.

Business Review

Operating Review

Progress against objectives during 2008 / 2009

In the 2008 Annual Report I outlined our priorities for the year ahead. We have made good progress in all areas.

Service excellence - *to maintain our position as the best service provider for publishers and retailers, developing a menu of services that can be tailored to customer needs.*

Service has continued to improve across Smiths News, with a greater consistency of performance as all depots reach the same high standards. In July 2009 all of our depots achieved 100% compliance to their key performance indicators. This relentless drive on service has been the foundation of our success in winning new contracts.

Independently conducted surveys, which are carried out on a monthly basis, continue to show our service as 'best in class', with retailers and publishers scoring Smiths News as the best service provider in 48 out of 61 service categories.

We invested £2.5m in upgrading our technology infrastructure; this will improve performance of our systems and increase their capacity in line with the requirements of the new business gains. We also continue to develop our market leading EPoS and Sales Based Replenishment solutions, which help customers respond quickly and efficiently to consumer demand.

Bertrams too has service at the heart of its customer proposition. We have increased the availability of titles in stock and feedback from customers confirms that service is improving after a difficult period during the administration of the Woolworths Group

Cost control and business efficiency - *to reduce the operating costs of the core business, targeting to offset the impact of inflation.*

Savings were achieved across Smiths News, with like-for-like costs reducing by £3.3m. These savings came from a variety of areas, including depot reorganisations, lower sales volumes, energy efficiency and a number of local cost reduction initiatives.

Network development and contract implementation - *to improve and expand our network without disruption to the core business, particularly focusing on those new areas of operation that will come into effect from July 2009 as a result of the additional business with News International.*

We have made outstanding progress. The network was expanded in readiness for the implementation of the News International contract gains, with new depots in seven locations. In August, our network increased by a further 20 depots that were previously operated by Dawson News. These depots were required to service the new territories resulting from our successful contract wins. Further details are included later in this report.

In addition to the new territories, we continued to review and develop our existing infrastructure. In December, a state-of-the-art depot was opened in Newport, combining operations across all of South Wales. We further consolidated operations in the East Midlands following the opening of a new depot in Nottingham in May 2008.

Contracts and new business gains - *to renew successfully those contracts that are reaching maturity and win additional business in areas that strengthen our profitability and strategic positioning.*

We renewed our contracts with all major publishers, increasing our market share of newspaper and magazine distribution to 55%. The contract wins confirm Smiths News as the clear market leader and will deliver an estimated £459m of incremental revenue, albeit at reduced margins.

	Estimated Additional Revenue* £m
News International	85
Telegraph	53
Trinity Mirror	47
Marketforce	44
Frontline Group	58
Seymour	26
Associated Newspapers	65
COMAG	35
Guardian	16
Express	30
Total	459

*based on current sales values

Business Review

Operating Review

We were sorry that we were unable to retain the contracts for Blackpool, Lancaster, Sheffield and Carmarthen. The loss of these territories was a consequence of publishers' network strategies and is no reflection on the service standards at these locations.

Regional Press publishers have also awarded us new contracts, with notable gains from Newsquest and Johnston Press. The total revenue of these contracts in 2010 is projected to be £10.5m. This is an area we are targeting for further growth.

Business development - *to identify and develop opportunities to use our skills and competencies in new market segments.*

We have made good progress despite the general economic conditions being less conducive to new business expansion. The acquisition of Bertrams creates opportunities to leverage our skills in the books market, and we are confident that over time, both Bertrams and Smiths News can benefit from working more closely together.

On a wider note, we have identified a number of markets in which we might expand our interest, with a clear understanding of where and how we can add value. But we will not be rushed or compromise delivery of our other priorities.

Talent management - *to invest in our people, ensuring we have and retain a pool of industry leading talent at all levels of the business.*

We have made good progress with our talent strategy, creating a Leadership Group as a focus for our most senior managers and supporting this with development pools at lower levels. We launched a graduate programme and an apprentice scheme and will be expanding these in 2010.

Earlier this year, Bertrams won the East Region Learn Direct Achievement Award for a Small/Medium sized company, recognising Bertrams' sustained commitment to learning and development.

Looking ahead, we are fully committed to developing the skills of our people, providing satisfying careers and extending the range of opportunities for employees to progress.

Objectives for 2009 / 2010

We have identified six priorities:

- **Business gains**
The full integration of the depots acquired in August 2009, including the implementation of our SAP information system at all locations. We plan to integrate without disruption, and quickly establish our market leading systems and processes.
- **Service excellence**
To raise the standards of service in our newly acquired depots towards those of our established locations, providing greater service consistency to customers throughout our network. We plan to deliver enhanced services that will improve profitability for all stakeholders, including an expansion of our Sales Based Replenishment service.
- **Cost control**
To maintain tight cost control across all business in the Group, achieving a like-for-like reduction in costs at least in line with inflation. We plan to introduce our efficient operating practices into the new territories operated by Smiths News and we will target savings in Bertrams through synergies and operational best practice.
- **Bertrams**
To increase the sales and profitability of Bertrams by applying the Group's expertise in service and efficiency. We plan to invest in Bertrams and to exploit the opportunities between its customer base and that of Smiths News.
- **New business development**
To research, prepare for and be alive to new business development opportunities that would enhance the Group.
- **People**
To increase our pool of market leading talent. We plan the implementation of new succession and leadership programmes, an extension of the graduate and apprentice schemes, and widening of opportunities for all staff.

Business Review

Operating Review

Key Performance indicators

Smiths News

The most important performance measures are those that our publishers and retailers identify as having the biggest impact on their businesses. We maintained our excellent performance in all of these areas during the year, operating well above targeted levels. Performance against these measures is listed below.

Measure	2009	2008
Newspaper pack accuracy	99.8%	99.8%
Magazine pack accuracy	99.7%	99.6%
On-time delivery	97.0%	96.3%
Newspaper returns collection on-time	99.8%	98.0%
Magazine returns processing accuracy	99.9%	99.9%

In addition to these and other measures we commission independently conducted customer surveys of our service to publishers and retailers. The results show that key customer groups consistently rate Smiths News as the market leader for service.

Bertrams

Measure	2009	2008
Availability of titles in core range	94.1%	92.7%
On-shelf stock integrity	99.8%	97.2%
Same day despatch	100%	100%
Delivered next day	98.2%	98.2%
Telephone calls answered in less than 20 seconds	93.3%	87.6%

This strong performance shows improvements year on year and reflects the concentrated focus on customer service following the Group's acquisition of Bertrams.

Business Review

Operating Review

Major Business Developments

News International implementation

In July 2009 Smiths News commenced delivery to the new territories awarded by News International. The new contracts expanded the network by an additional seven depots, serving 2,900 new customers; a further 3,300 of our existing customers were also affected by the contract changes as they had previously received their News International titles from an independent wholesaler.

Detailed planning was required to ensure a smooth transition and a seamless transfer from the previous wholesaler. Our preparation was such that we were able, at News International's request, to commence distribution to a number of territories, two weeks ahead of schedule.

Since July, the distribution to the new territories has progressed without any significant incidents, key performance targets are being met and retailers are pleased with the new service they are receiving.

Contract gains and network expansion

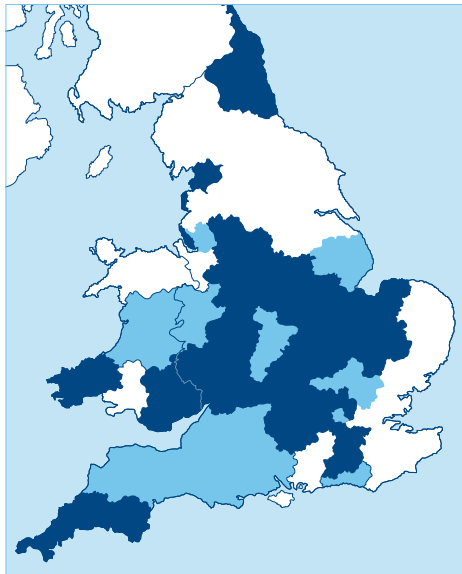
The new contracts, awarded by publishers early in 2009, have transformed the scale and reach of Smiths News.

The contracts were due to take effect by way of phased implementation over a two-year period. However, following the contract awards, Dawson News (which had lost most of its business) entered administration. In order to maintain continuity for customers Smiths News reached agreement with the administrator to assume responsibility for the leases of 20 depots, together with associated staff; parallel agreements were reached with publishers for distribution to the new contracts areas. The new distribution arrangements commenced on 2 August 2009.

Prior to the agreement an application for merger clearance was submitted to the Office of Fair Trading. The transaction was subsequently approved in August 2009.

The transfer of such a large number of territories inevitably required considerable one-off costs, and over the coming year further investment and one-off non recurring costs are anticipated. However, in the medium term, the early transfer of these territories means Smiths News will be well placed to exploit efficiencies and improve service for customers.

The map below shows the impact of these awards on our areas of operation.



New distribution areas gained in 2009 are in light blue. Dark blue shows pre-existing areas.

Note to map: Contracts were not successfully renewed in Carmarthen, Sheffield, Blackpool and Lancaster. For the time being these depots remain fully operational and we will assess their ongoing viability over the coming months, taking particular note of the impact on staff.

Business Review

Operating Review

Bertrams

In March the Group acquired the business and assets of Bertrams from the Administrator of the Woolworths Group. The opportunity matched our strategy of seeking to broaden our operational base with activities that complement the Group's core operation. We expect Bertrams to be earnings enhancing in its first full year of ownership and to generate returns well in excess of our cost of capital.

Bertrams is a highly respected book wholesaler, with a strong management team. It sells to independent and multiple retailers, services on-line orders and supplies to libraries on a contract basis. This profile is a close match to Smiths News and although Bertrams will operate as an independent unit, there is opportunity to share skills and experience across the Group.

Since March, Bertrams has performed well regaining market share and winning new contracts in the library sector. The major book publishers have been supportive in helping the business get back on track after the uncertainty caused by the Woolworths administration. Similarly, retail customers are pleased that Bertrams has joined a strong Group and they are benefiting from increased stock levels and improved service. We have also identified new efficiency improvements, drawing on the Group's expertise in service and logistics.

Over time we believe Bertrams will offer us significant opportunities. The book wholesale market has many similar characteristics to newspaper and magazine distribution and it is a logical diversification at this stage in the Group's development.



Michael Neil - Managing Director, Bertrams, glad to be part of Smiths News PLC.

'Being taken over by Smiths News was the perfect outcome for Bertrams. After a difficult few months we emerged happily from under the debris of Woolworths. The customers have been hugely supportive and have stuck with us. Our business has rallied quickly under the ownership of the Group - we've benefited from its financial stability and credibility with the book trade. This has given us the time to plan and deliver our two major trading opportunities effectively - back to university and Christmas. There are lots of opportunities for 2010 and we are looking forward to continuing to build the business.'

We believe
Bertrams will offer
us significant
opportunities.

Business Review

Operating Review

Industry Regulation

In September 2009, after a lengthy review of the industry, the Office of Fair Trading (OFT) announced that it would not be referring the industry to the Competition Commission. In its review, the OFT identified a limited number of potential concerns, but concluded that it was not going to refer the industry to the Competition Commission for further investigation. Wholesalers, publishers and the major retailers have welcomed this decision. It will allow the industry to focus on developing the supply chain and responding to the regulatory changes brought about by earlier announcements from the OFT. Details of these are given below.

In October 2008, the OFT announced its findings in relation to the terms of newspaper and magazine contracts between publishers and wholesalers. The OFT gave its opinion on the award of distribution territories conferring 'absolute territorial protection' to the relevant wholesaler. The OFT concluded that in relation to newspapers such contracts were likely to meet the criteria for exemption under section 9 (1) of the Competition Act 1998; in relation to magazines the OFT concluded that the contracts would require amendment to remove the exclusivity provisions conferring absolute territorial protection for all but the most time-sensitive of titles. Smiths News has subsequently reviewed its publisher contracts to ensure compliance.

Newspaper Code of Practice

For many years the National Newspaper Code of Practice (the Code of Practice) governed the supply of newspapers to retailers who wished to receive supplies. In October 2008 the OFT made a provisional recommendation that wholesalers should be released from their undertakings under the Code of Practice. The Secretary of State for Business subsequently confirmed this recommendation in April 2009 and the Code of Practice has been formally withdrawn with effect from October 2009. Smiths News has subsequently reviewed its policies, removing the restrictions that were in place under the Code of Practice and making it easier for retailers to receive supplies of newspapers and magazines.

Further details of the OFT's announcements can be found on the OFT website http://www.offt.gov.uk/oft_at_work/markets/goods/newspapers-magazines/

Corporate Responsibility

The Group takes a proactive approach to corporate responsibility. We recognise that responsible business practices have benefits for all stakeholders. Our approach to corporate responsibility embraces our workplace, our marketplace, the environment and the communities we serve.

Further details of our corporate responsibility policy and our initiatives can be found on page 33 of this report and on our website www.smithsnews.co.uk

Smiths News will be well placed to exploit efficiencies and improve service for customers.

Business Review

Operating Review

Staff

The skill and determination of our staff is behind everything we do. We recognise that investing in people is key to making the Group a better and stronger company.

This year we've made further improvements to our succession planning, staff development and coaching programmes. We also launched a leadership skills framework to help us recruit and develop the right people for the right roles.

We believe in setting clear standards of performance and where applicable we link an element of remuneration to the achievement of personal goals. Performance is monitored on a regular basis and the process is supplemented by six-monthly reviews, which identify areas of development that will benefit the individual and the Group. Ultimately, our goal is to have a pool of market leading talent at all levels of the business.

A major component of our network expansion was the transfer of 1,800 employees from Dawson News. In the absence of the transaction the jobs of these staff were at serious risk given the financial situation of Dawson News. The integration of the new businesses will inevitably require a number of redundancies, but we will ensure these are managed professionally; we have established clear principles, ensuring every employee is treated fairly, and will be investing a significant amount of time in the consultation process.

As the Group expands we are determined to remain close to our staff, involving and engaging them in the future of the Company. Our recent employee survey was returned by over 70% of staff; the results showed we have a highly committed work force and gave us an in depth view of the issues that motivate and concern them. As a result we have identified a number of areas that we are targeting for improvement, including central communications and staff benefits.

Outlook

After a year of transformational change, the Group has clear priorities for the year ahead.

The implementation of the new contract gains has started well and we are pleased with the performance of Bertrams. We have clear plans to reduce costs in those depots we acquired in August and will maintain our relentless focus on service and efficiency throughout the Group.

Our markets remain challenging, but in recent months there has been a slight improvement in sales trends and we have made a good start to the year. We look forward to reporting another year of progress and believe Smiths News is well positioned for future growth.

Risks and Uncertainties

The Group operates in large and generally stable markets. Our revenues are relatively predictable and, with strong cost control, we can mitigate the risks to the achievement of targeted profits. We have robust internal procedures to monitor costs and revenues: the Risk Committee reviews the principal strategic and financial risks on a regular basis and the Audit Committee reviews the risk process - the findings are reviewed by the Board twice each year.

Our assessment of the principal risks is listed below.

- **Integration of new contract gains**

The integration of the new depots following the contract gains encompasses a wide range of operational and technical issues, in particular the installation of the SAP information system at all new locations. A failure to meet key deadlines could result in rectification costs, reduced efficiency and failure to achieve contractual KPIs.

Smiths News manages one of the UK's largest and well-established SAP installations with over 10 years experience of implementing the system within the business. The Board has identified the integration as the Group's top priority in the coming year and the necessary resources have been allocated to manage the project effectively - progress will be monitored on a continual basis.

Business Review

Operating Review

- **Impact of passive sales**

In line with guidance issued by the OFT, the new contracts awarded by magazine publishers make allowance for sales outside of the designated territories in response to request from retailers. Previous contracts were 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 combination of a leading service and most efficient operation means Smiths News is well placed to respond to any such requests.

- **Retail sales**

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

National newspapers have a long-term trend of price increases offsetting the impact of volume declines. Magazine sales are more variable by sector and recent performance has seen a reduction in volume and value. The extent to which this decline is a temporary response to recent economic downturn, or is more 'structural' in nature, is at this stage uncertain.

In the medium term Smiths News is well placed to mitigate these risks. The contract wins have resulted in significant increases in market share and sales revenues; they also create opportunities for efficiency gains. The relative stability of the markets helps us to anticipate and plan for any worsening of conditions, enabling us to take appropriate action to protect profits.

- **Digital media**

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

We recognise that the consumption of digital media will increase but believe there remains a strong future for traditional printed publications. Publishers increasingly see the channels as complementary and they continue to invest in print and production facilities. The vast majority of publishers do not make substantial profits from stand-alone digital alternatives so there are strong incentives for continued investment in traditional channels.

The Group will continue to closely monitor developments in the digital market.

- **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 company's share of these leases has an estimated future cumulative gross rental commitment at 31 August 2009 of £26.6m (2008: £34.4m).

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 expired or been regeared.

For those leases that revert to the Group it is possible they can be re-assigned or sublet within a short time period

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

Business Review

Operating Review

- **Continued difficult economic environment**

Continued difficult financial conditions could affect the ability of the Group's customers to pay on time.

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 this product means that settlement of our invoice is generally prioritised.

Of our larger 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 multiple retail chains.

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

The Group's largest credit risk is to some of the UK's major retailers who have strong credit ratings. The average credit period taken on sale of goods is 21 days (2008: 21 days). We continue to manage our credit risk tightly to ensure our customers comply with payment terms.

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

The Group continues to generate strong free cash flow and is operating well within its existing banking covenants. The Company's bank facilities consist of a £40m term loan, a £50m revolving credit facility and an asset backed facility of up to £20m on the debtors of Bertrams; these are in place until June 2011, subject to a £5m term loan repayment in June 2010. We continually monitor any variance between forecast and actual cash flows in managing our liquidity risk.

The Group's treasury and risk management is set out in the Financial Review on page 30. The principal financial risks (capital, market, credit and liquidity) are detailed in Note 23 to the Financial Statements.



James Simmons - News International Project Manager, masterminding the addition of five new depots.

'It's certainly been a busy year! Winning the News International contract increased our footprint across the UK and helped us pick up other contracts that were being renewed. We've strengthened our reach, creating five new depots from scratch, capable of handling the demands of 2,800 new customers. Our distribution now encompasses an additional 170 routes, covering an extra 6,500 miles each day. We're certainly not taking a breather, instead we are focused on improving the network and growing the business.'

Bertrams delivers 98% of UK book orders within one day.

We can supply 775,000 different titles to customers anywhere in the world.



Business Review

Financial Review

It is pleasing to report a solid set of results, given a year of extremely tough economic conditions.

Group revenues of £1.33bn are up 6.9% on last year driven by the acquisition of Bertrams and the new contract gains. Underlying Group profit before tax is £30.5m, generating underlying earnings per share of 13.8p.

The business continues to drive strong cash flows, with free cash flow of £23.7m this year, which supports an increase in the total dividend for the year to 6.8p per share.

Financial highlights						
	Underlying ⁽¹⁾			Statutory		
	Aug 2009	Aug 2008	Change	Aug 2009	Aug 2008	Change
Revenue	£1,326.0m	£1,240.6m	6.9%	£1,326.0m	£1,240.6m	6.9%
Profit before tax	£30.5m	£32.5m	(6.2%)	£18.4m	£32.6m	(43.6%)
Earnings per share	13.8p	14.5p	(4.8%)	9.9p	14.8p	(33.1%)
Total dividend	6.8p	6.7p	1.5%	6.8p	6.7p	1.5%
Free cash flow ⁽²⁾	£23.7m	£21.3m	11.3%			
Net Debt ⁽³⁾	£49.5m	£44.0m	(12.5%)			

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

- ⁽¹⁾ Underlying 2009 and 2008 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 and non-recurring 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⁾ Like-for-like revenue growth excludes magazine and newspaper publisher contract gains during the year, and the annualisation impact of gains made in the prior year.
- ⁽⁵⁾ Smiths News and Bertrams are also referred to as the Newspaper and Magazine wholesaling segment and the Book wholesaling segment respectively.

Business Review

Financial Review

Notes	Revenues				
Total Group revenues of £1.33bn for the year are up 6.9% on last year.	Aug 2009 £m	Aug 2008 £m	Change Fav/(Adv)	Like-for-like ⁽⁴⁾ growth Fav/(Adv)	
	Newspapers	703.3	657.6	6.9%	(2.8%)
	Magazines	508.6	527.7	(3.6%)	(7.6%)
	Other	60.6	55.3	9.6%	9.6%
	Smiths News ⁽⁵⁾	1,272.5	1,240.6	2.6%	(4.1%)
	Bertrams ⁽⁵⁾	53.5	-	-	-
	Total Group revenue	1,326.0	1,240.6	6.9%	(4.1%)

The increase in Group revenues was partly driven by the addition of Bertrams, which contributed £53.5m of revenue during the five-month period from the date of acquisition.

Revenues from newspapers are up 6.9% on the back of contract wins, the largest elements coming from the commencement of the new News International contract in July and from the addition of the former Dawson News business in August.

Like-for-like newspaper revenues are down 2.8%. This is largely due to an additional £18m of promotional price discounting within the mass-market titles across the year. If this price discounting is adjusted, underlying newspaper sales would be marginally ahead of last year, with reductions in volumes being more than offset by price increases.

The magazine market has proved much more vulnerable to the economic downturn experienced this year. Magazine revenues are down 3.6% year on year, despite benefiting from new contract gains in August 2009. Like-for-like magazine revenues are down 7.6% although we have seen some improvement in sales trends over the last quarter.

Other revenues include income from additional services to publishers and retailers, delivery service charges and contracts relating to Newsworks and Instore, which in total have grown by 9.6% this year.

Business Review

Financial Review

Notes

The increase in Group revenues, partially offset by a weaker gross margin percentage, has resulted in a gross profit of £130.6m being £7.1m above last year.

Income statement extracts – excluding non-recurring and other items

	Smiths News ⁽⁵⁾ £m	Bertrams ⁽⁵⁾ £m	Group Aug 2009 £m	Group Aug 2008 £m	Change Fav/(Adv)
Gross profit	121.2	9.4	130.6	123.5	5.7%
<i>Gross margin</i>	9.5%	17.6%	9.8%	10.0%	
Operating costs	(89.5)	(8.7)	(98.2)	(87.5)	(12.2%)
Underlying operating profit	31.7	0.7	32.4	36.0	(10.0%)
Net finance costs	(1.7)	(0.2)	(1.9)	(3.5)	45.7%
Underlying profit before tax	30.0	0.5	30.5	32.5	(6.2%)
Taxation			(5.7)	(6.5)	12.3%
Underlying profit after tax			24.8	26.0	(4.6%)

The weaker gross margin is largely due to a negative sales mix in Smiths News, partly offset by a higher gross margin in Bertrams.

Next year we expect any dilution in the Smiths News margin percentage, arising from the contract renewals, to be offset by a full year of Bertrams trading at a higher margin percentage.

Group operating costs of £98.2m are up £10.7m on last year, as a result of servicing new contract gains and the inclusion of Bertrams. Excluding these items, underlying operating costs in Smiths News declined by a further £3.3m this year. Savings have been achieved from a wide range of initiatives across the business, which include network changes in Nottingham and Newport, route optimisation and a reduction in energy usage.

Finance costs of £1.9m are £1.6m lower than last year due to reductions in interest rates and tight cash management.

Smiths News generated underlying profit before tax of £30.0m, a decrease of 7.7%.

Bertrams generated £0.5m of underlying profit before tax in the five months since March, a strong performance given the shortfall of working capital in the business at the time of acquisition and with normal peak trading (October to December) falling outside of this period.

Underlying Group profit before tax for the year is £30.5m, 6.2% lower than last year. This was slightly ahead of expectations despite the backdrop of very demanding and difficult market conditions.

The underlying Group tax charge for the year of £5.7m represents an effective tax rate of 19%. This is lower than the UK standard rate of corporation tax due largely to prior year tax credits of £3.2m. We anticipate that our effective tax rate for 2010 will continue to be lower than the standard rate but that it will trend back to the standard rate of corporation tax for the UK over the next two years.

Underlying Group profit after tax is £24.8m, down 4.6% on last year.

Business Review

Financial Review

Notes

There have been a number of non-recurring items that have impacted our results for the year which together with amortisation of acquired intangibles have been shown as 'non-recurring and other items' in the financial statements.

Non-recurring and other items			
	(Loss)/profit before taxation £m	Taxation £m	(Loss)/profit after taxation £m
The Returns Company	(3.1)	0.8	(2.3)
Cross currency contract	(1.5)	2.3	0.8
Reversionary leases	(2.5)	0.7	(1.8)
New business reorganisation	(4.6)	1.1	(3.5)
Amortisation of acquired intangibles	(0.4)	0.1	(0.3)
Aug 2009	(12.1)	5.0	(7.1)
Aug 2008	0.1	0.4	0.5

Since the loss of the WH Smith Retail contract last year, The Returns Company (a returns processing business) has been unable to secure the contracts required to achieve scale. We continue to explore options for The Returns Company. Following a detailed review of the future trading prospects, an impairment charge of £3.1m has been recognised to write down the assets and provide for an onerous lease liability and for other reorganisation costs.

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

Under the terms of the 2006 Demerger Agreement with WH Smith PLC, the Group has a contingent liability for 35% of the former WH Smith Group potential reversionary leases, capped at a maximum of £5m in any twelve month period. During the year a number of leases have reverted, or could now revert and thus a provision of £2.5m has been made to cover this potential liability.

A reorganisation provision of £4.6m has been recognised following contract changes and the exit of Dawson News from the news distribution market. This largely relates to redundancy costs and an onerous lease provision. As the majority of the contract gains took place close to the year end it is expected that further reorganisation costs amounting to circa £5m will be incurred in 2010.

Intangible assets relating to the acquisition of Bertrams will be amortised over their expected economic lives. The charge for the 5 months to 31 August 2009 is £0.4m, for which there is no associated cash impact.

The cash impact of the non-recurring costs noted above is £1.2m in the year with an estimated cash spend of £2.3m in 2010, the balance being spread across later years.

Non-recurring items for 2008 totalling £0.1m relate to a £1.4m profit on disposal of five freehold properties offsetting costs of £1.3m relating to the reorganisation of our businesses in the East Midlands and South Wales.

Business Review

Financial Review

Notes	EPS and dividend			
	Aug 2009 Underlying	Aug 2008 Underlying	Aug 2009 Statutory	Aug 2008 Statutory
Underlying profit after tax is £24.8m, which generates basic earnings per share for the year of 13.8p.				
Profit after tax (£m)	24.8	26.0	17.7	26.5
Basic number of shares (millions)	179.5	179.3	179.5	179.3
Basic EPS	13.8p	14.5p	9.9p	14.8p
Dividend per share	6.8p	6.7p	6.8p	6.7p

Profit after tax is £17.7m generating reported earnings per share of 9.9p.

A final dividend for the year of 4.6p has been proposed which is a 2.2% increase on 2008. When added to the interim dividend of 2.2p this gives a total dividend for the year of 6.8p which is up 1.5%. If approved, the final dividend of 4.6p will be paid on 5 February 2010 to shareholders on the register at the close of business on 8 January 2010.

Business Review

Financial Review

Notes	Free cash flow		
	Aug 2009	Aug 2008	
	£m	£m	
	32.4	36.0	
	6.7	6.1	
	4.6	(3.8)	
	(5.2)	(3.8)	
	(2.9)	(3.5)	
	(5.6)	(3.2)	
	(5.7)	(5.9)	
	(0.6)	(0.6)	
	23.7	21.3	

The business continues to generate strong cash flows with free cash flow of £23.7m in the year, up £2.4m on the previous year.

The components of working capital have increased significantly across the year as a result of the acquisition of Bertrams and the new contract gains, with current assets at 31 August 2009 increasing to £150.2m (2008: £76.1m) and current liabilities increasing to £213.4m (2008: £126.9m). The net working capital position however is a modest cash inflow of £4.6m. This amount excludes the spend on acquired working capital (see net debt below) but includes normal year end timing differences.

Capital expenditure of £5.2m has largely been invested in network and IT enhancements that will drive future efficiencies and service improvements. It also includes £1.5m which was spent acquiring certain assets of Dawson News in August 2009.

⁽⁶⁾ *Net interest paid and taxation exclude the interest cost and tax benefits arising from the cross-currency contract included within non-recurring items.*

Business Review

Financial Review

Notes	Net debt		
	Aug 2009 £m	Aug 2008 £m	
Whilst spending £12.2m on acquisitions, the increase in net debt was restricted to £5.5m due to the underlying cash generation of the Group.	Opening net debt⁽³⁾	(44.0)	(52.7)
	Free cash flow	23.7	21.3
	Dividend paid	(12.0)	(11.7)
	Proceeds on disposal of freehold properties	-	2.3
	Non recurring items	(1.2)	0.1
	Acquisitions	(12.2)	(2.1)
	New finance leases	(3.8)	(1.2)
	(Increase)/decrease in net debt⁽³⁾	(5.5)	8.7
	Closing net debt⁽³⁾	(49.5)	(44.0)

Spend on acquisitions in the year is detailed below:

- On 20 March 2009 the Group acquired the business and assets of Bertrams. The cost of the acquisition was £8.6m plus £2.6m of associated costs.
- On 30 October 2008 deferred consideration of £1.0m relating to our 50% investment in Rascal was paid (Rascal provides store level technology and resources to a number of major retailers in the news and magazine category).

Bank facilities

The Group has total committed bank facilities in place of up to £110m as detailed below;

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

There is an interest rate hedge in place until June 2011 at an all in effective rate of 5.78%, which at 31 August 2009 covered 62% of the term loan.

The Group continues to operate well within its banking covenants.

Business Review

Financial Review

Pension

The IAS 19 pension surplus relating to the defined benefit scheme, the WH Smith Pension Trust, at 31 August 2009 is £19.3m (2008: £62.4m), a decrease of £43.1m in the year. This decrease is largely due to the movement in corporate bond yields and the adoption of more conservative assumptions on mortality.

The scheme is closed to further accrual, which would prevent the Group from realising the surplus through a funding holiday or a reduction in contributions. Given the Liability Driven Investment policy adopted by the Pension Trustees, the present value of the economic benefits of the IAS 19 surplus in the pension scheme of £19.3m (2008: £62.4m) available on a reduction in future contributions is £nil (2008: £nil). As a result the Group has not recognised the IAS 19 surplus on the balance sheet.

Following completion of the recent triennial valuation the scheme had an actuarial deficit of £50m as at 31 March 2009. A revised deficit funding schedule of £5.8m per annum has been agreed for the next ten years with the trustees.

This deficit continues to be managed through the Liability Driven Investment ('LDI') policy, which seeks to minimise volatility through the hedging of interest and inflation.

Treasury and risk management

The Group's Treasury function endeavours to reduce exposure to interest rates, foreign exchange and other financial risks, to ensure sufficient liquidity is available to meet foreseeable requirements and to invest cash assets safely and profitably. The Group uses certain derivative financial instruments to hedge interest rate exposures and to support underlying business requirements. The Group's treasury policies and procedures are periodically reviewed and approved by the Audit Committee and are subject to regular Group Internal Audit review.

The principal financial risks for Smiths News PLC are set out in Note 23 to the financial statements.

Investment risk management

The Group's pension scheme, the WH Smith Pension Trust, has assets valued at £357.4m as at 31 August 2009. An Investment Committee of the Trustees to the Scheme meets regularly to review the performance of the asset managers and the scheme as a whole. The Company is represented on this Committee. In adopting the LDI structure in 2005 hedges and option agreements were entered into to minimise scheme exposure to inflation and interest rate volatility. Collateral is posted daily to or from the scheme to the relevant counterparty. The risk of failure of counterparties to these instruments and of the investment manager is monitored closely and regularly by the Committee; as such failure could expose the scheme to loss.

Accounting policies and standards

The principal accounting policies used by Smiths News PLC are set out in Note 1 to the financial statements.

Business Review

Financial Review

Going concern

The Group meets its day-to-day working capital requirements through its bank facilities of up to £110m, which do not expire until June 2011. The Group's forecasts, taking into account the board's future expectations of the Group's performance, indicate that there is substantial headroom within these bank facilities and the Group will continue to operate well within the covenants attaching to those facilities. These bank facilities together with renewed long term contracts with all major publishers in the year mean that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. The Group's cash generation allows it to meet all loan commitments as they fall due as well as managing the negative working capital position. The negative working capital and net liability positions at year end relate to the timing of monthly cash flows which are closely monitored and controlled by management.

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

Key financial performance indicators (KPIs)				
KPI	Definition	Underlying Aug 2009	Underlying Aug 2008	Change Fav/ Adv)
Revenue	Growth in total revenues	£1,326.0m	£1,240.6m	6.9%
Profit before tax	Profit before tax is a measure of profit generation.	£30.5m	£32.5m	(6.2%)
Earnings Per Share (EPS)	Earnings per share is calculated using profit after tax divided by the undiluted weighted average number of shares in issue during the year.	13.8p	14.5p	(4.8%)
Free Cash Flow	Free cash flow is the cash flow generated by the business 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 and non-recurring items. It is a meaningful measure of operating performance as it demonstrates the Group's ability to generate cash for ongoing activities and invest in its future growth.	£23.7m	£21.3m	11.3%

Last year we delivered 2.1bn
items to 30,000 retailers.

Our customers range from tiny sub-post offices
to huge supermarket chains in big cities.

By 8am all our retailers have received
their daily newspapers.



Corporate Responsibility

Corporate Responsibility Review

The Group recognises the benefits of having strong corporate responsibility (CR) policies and takes a positive approach to integrating CR into its businesses. Our staff take pride in the way we work and the impact we have on our customers and communities.

The Group has clear policies that ensure our day-to-day operations meet agreed standards. Annual targets and initiatives ensure we continue to move forward, improving standards and responding to changes in the wider business environment.

Governance and Management

The Corporate Responsibility Committee oversees the management of our CR programme, working to clear objectives, which are reviewed at least annually. The Committee reports to the Executive and gives the Board regular updates on any significant issues. The Board considers a full progress report every year and approves the targets for the following year; issues of particular significance or urgency are considered by the Executive and the Board as they arise.

The Committee is composed of managers with responsibility for our focus areas: community, workplace, marketplace and environment. Its objectives are aligned with those of our day-to-day operation. This approach ensures that CR is an integral part of our business goals rather than 'added on' as an optional extra.

Marketplace

The Group, and Smiths News in particular, has a unique role to play in bringing news and information to communities across the UK. In the majority of our territories we are the sole distributor of newspapers and magazines and this confers responsibilities with social and cultural implications. We are committed to maintaining a diverse and widely available press for consumers, ensuring the route to market meets the needs of small publishers and retailers as well as the large. Our policies ensure we provide a quality service to all our customers, regardless of their size or location.



Jade Ilyas
- youngest trainee on our new apprentice scheme

Jade works on the day-pack and preps for the twilight pack, ensuring round the clock news distribution. Her team processes up to 1m magazines a week for 1,500 retailers in the Borehamwood area. 'It's a buzz working for Smiths News - every day there's a fresh challenge plus it's good being part of such a fast moving business. The teamwork is fantastic - everyone supports each other.'

Electricity consumption
has reduced by 20%;
gas by 18.5%.

Corporate Responsibility

Corporate Responsibility Review

Supply of newspapers and magazines

For many years the National Newspaper Code of Practice (the Code of Practice) has governed the supply of newspapers to retailers. The objective of the Code of Practice was to ensure wide availability of newspapers across the UK, underpinned by a fair and transparent process governing applications for supplies. In practice, many aspects of the Code of Practice were also applicable to the supply of magazines.

In February 2009 wholesalers were released from their obligations under the Code of Practice. Nonetheless, the Group continues to support its objectives of ensuring wide availability of supplies and we acted swiftly to reassure our customers. Our revised policy removes many of the previous restrictions on applications for supply and has been welcomed by customers and the OFT. In addition, we have given a commitment to continue supplying all our customers regardless of their size or location, and we will make special provision to ensure small communities are able to take advantage of our services too.

Customer service standards

Smiths News continues to support the improvement of industry-wide standards for newspaper and magazine distribution. Our new contracts commit us to achieving even higher standards of performance and we have parallel service agreements with the majority of major retailers, reporting to both customer groups on a regular basis.

We believe that transparency of performance drives standards, and improves awareness of the impact we have on customers. Over recent years we have led the industry in making available detailed performance measures at all levels of our operation. We measure performance on a daily basis, posting results on our intranet and sharing relevant data with publishers and retailers. Our scanning and tracking processes mean we can analyse issues quickly, pinpointing opportunities for improvement.

With such a large operation there are inevitably occasions when targets are missed. Our priority is to rectify errors immediately and in the vast majority of cases this is achieved on a same-day basis. In the very rare event of a serious service failure we support the industry fast track compensation scheme, ensuring customers are reimbursed for lost sales.

Supporting wide availability of news and information

Wholesalers play a vital role in the supply of news and information, particularly to consumers in remote and rural areas where the local newsagent is often one of the focal points for local communities. Our standards ensure that retailers receive a quality service, regardless of their size or location. Industry surveys show that consumers in over 95% of postcodes have access to newspapers and magazines within five minutes travelling time. We take pride in the contribution we make to this remarkable achievement.

Confidentiality and business best practice.

Our sales and marketing systems hold information that is commercially sensitive to our publishers and retailers. We have strict guidelines to ensure robust compliance to confidentiality and wider competition law; training is provided where appropriate. A Compliance Committee reviews our policies on a regular basis, identifying areas for improvement.

Workplace

Smiths News is an equal opportunities employer and we select staff solely on merit, irrespective of race, sex, sexual orientation, age, disability, disfigurement, marital status or religion. We are committed to the principle that all employees should be treated with respect and dignity, and that our differences should be valued and recognised as a positive aspect of the workplace.

We encourage all employees to improve their skills through training and development, and we are committed to providing career opportunities for those who wish to progress; internal applicants fill the majority of our management vacancies.

This year we expanded our talent management programme, further supporting the development of staff, from young apprentices to experienced managers.

We have an employee forum with representation at local, regional and national level. This forum is supported by training and communication and is used to consult and communicate with staff.

Environment

The Group is committed to responsible environmental practices and recognises that this increasingly requires a leadership approach on the part of large companies. Our staff care about the way we work and there is widespread awareness of the need for environmental initiatives.

Corporate Responsibility

Corporate Responsibility Review

We focus our environmental policies on those areas where we believe we can make most difference, both in our business and the overall supply chains in which we operate. Our key areas of focus are improving energy and fuel efficiency, reducing waste and increasing recycling. For the second year running we made good progress in all these areas.

Energy consumption

Electricity consumption in Smiths News has reduced by 20% this year.

All of the depots in Smiths News were fitted with automatic meter readers for electricity, with the exception of three small locations. In pursuit of our target we undertook modifications and alterations to improve the efficiency and controls of power usage, including better switching and wider use of occupancy detectors.

Gas consumption has reduced by 18.5%. Consumption is monitored closely by our own meter readings and we continue to seek further improvements.

Total energy consumption for 2008-09 was 7,770,009 Kwh of electricity and 13,713,718 Kwh of gas. This equates to an equivalent of 6,709 tonnes of CO₂ emissions, a reduction of just over 24% on the previous year.

Our target for the coming year is to reduce like-for-like energy consumption by a further 5%. We plan to apply a similar focus to the additional sites acquired in August 2009. We will also be investigating ways further to reduce carbon emissions in line with the Carbon Reduction Commitment, which comes into effect in 2011.

Transport

Our distribution operations are heavily influenced by factors beyond our control, such as publisher arrival times and customers' required delivery times.

Smiths News has continued to use planning software to optimise distribution runs, reducing mileage and costs. We now have detailed measures of the mileage covered in our distribution (including by contractors). This has resulted in a further reduction in our vehicle fleet and a reduction in overall distribution costs.

Total fuel used by our own fleet operations for 2008-09 was 1.6m litres, and estimated fuel used by contractors was 4.5m litres. The estimated equivalent CO₂ emissions equates to 16,000 tonnes p.a. This is in line with last

year though the significant changes in our distribution profile makes like for like comparisons difficult.

We plan to continue monitoring this area, particularly optimising operations at the additional sites, targeting a corresponding benefit in emissions performance. We will continue to monitor developments in alternative fuelled vehicles, but these are not currently considered appropriate for our business.

Packaging Waste

In April 2009 we implemented a new process for the collection and recycling of packaging waste. This has significantly improved our recycling rate and reduced the amount of waste sent to landfill. A further benefit of the new arrangement has been a greater density within the containers used for waste, leading to fewer containers and collections.

Smiths News is now recycling circa 70% of its packaging waste and we estimate that the tonnage of waste going to landfill has been reduced by at least 50% this year. Since April 2009 the amount of waste going to landfill is the equivalent of only 700 tonnes p.a.

Our target for 2009-10 is to implement these new procedures at our recently acquired sites, and to achieve a minimum of 70% recycling rate across Smiths News.

Recycling of unsold copies

Newspapers and magazines are supplied to retailers on a sale or return basis. Those copies that retailers do not sell we collect and return to our distribution centres for credit. After checking and crediting, over 99% of the returned copies are sent for recycling, the remainder being high value items that are returned to publishers.

Following the successful implementation at Plymouth of semi automated handling equipment; we have installed this equipment at three more sites: Newport, Peterborough and Nottingham. The use of large storage facilities reduces the number of vehicles needed to collect waste from the depot. It also minimises the use of skips and forklift trucks, improving safety in the workplace.

Corporate Responsibility

Corporate Responsibility Review

Community

The Group encourages involvement at all levels of the business and seeks to support those employees who play an active role in their communities. Many of our staff are actively involved in voluntary activities and charity fundraising; we recognise that this brings indirect benefits to the Company through areas such as the development of their skills, team working and a sense of wellbeing.

Smiths News is an active supporter of NewstrAid Benevolent Society and this year we helped raise in excess of £400,000. The charity provides assistance to those people in the industry who are in personal difficulty and in need of special assistance. A number of our staff volunteer their time to visit NewstrAid beneficiaries and to act as local liaison for the society.

"Smiths News has led the way in the newspaper and magazine industry with their support for NewstrAid. Their involvement is pivotal to NewstrAid, in the last year alone helping us to raise over £400 000."

Alex Van Straubensee: Chief Executive, NewstrAid Benevolent Fund.

Our staff support a wide range of local and national charities, organising fundraising events and sponsored activities in their own areas. Examples this year include supporting the Walk for Life, charity bike rides, the Great North Run, and a John O Groats to Lands End challenge. We offer facilities for charitable giving through a Give As You Earn Scheme. Our employee forum adopted two charities for particular support: Whizz Kidz (a charity supporting disabled children) and Cancer Research UK.

This year, on a trial basis, Smiths News implemented a policy to help those staff wishing to volunteer time to community causes; with prior agreement an amount of voluntary time is 'donated' by the Company and line managers are asked to accommodate further involvement by taking a flexible approach to working hours where possible. The scheme has proved popular and we will be targeting an increase in take up in the coming year.

The Company made direct charitable donations of £6,594 during the year (2008: £34,826).

Health & Safety

The Group is committed to maintaining high standards of health and safety and actively seeks a continual improvement in its processes. We consult with staff, union representatives and relevant authorities to find ways of reducing risk.

The Operations Director of Smiths News is responsible for advising the Smiths News Executive and the Board on health and safety issues. A national Health and Safety Committee, comprising employees' representatives, management, trade union representatives and officials, supports improvement of health and safety standards. The management teams also monitor key safety performance indicators and updates are prepared for the Smiths News Executive and Board on a monthly basis.

Bertrams' Human Resources director is responsible for Health and Safety issues in Bertrams. The business works with staff, its Employee Council and relevant authorities to find ways of reducing risk. Bertrams' two distribution centres are audited on at least an annual basis to ensure compliance with national guidance and best practice. The directors responsible carry out reviews on a monthly basis.

Corporate Responsibility

Corporate Responsibility Review

The Board receives a summary of health and safety performance on a monthly basis. A detailed report on Health and Safety across the Group, giving trends, performance and recommendations is presented, on at least an annual basis, to the Audit Committee, which then reports to the Board.

Smiths News*	Accidents and Injuries		
	2009	2008	2007
Major injuries	2	1	5
Injuries resulting in over 3 days absence from work/ hospitalisation	34	61	61
All RIDDORS**	36	62	66

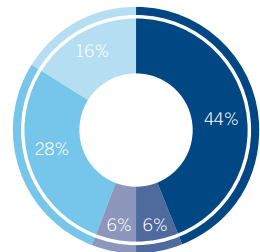
Bertrams	Accidents and Injuries		
	2009	2008	2007
Major injuries	0	0	0
Injuries resulting in over 3 days absence from work/ hospitalisation	6	2	1
All RIDDORS**	6	2	1

*Figures for Smiths News exclude those depots acquired from Dawson News in August 2009.

** Reportable under the Reporting of Injuries, Diseases and Dangerous Occurrence Regulations.

We continue to make significant progress in reducing the risk of injury to employees; as a result the number of reportable accidents has reduced again this year. This year we have increased our training to employees as well as managers. We also focused heavily on 'near miss' reporting, encouraging managers and their teams to take appropriate action to every incident and thereby prevent accidents occurring.

Accidents by Type	
(1st September 2008 - 31st August 2009)	
Manual handling	44%
Fractures	28%
Struck by moving / falling object	16%
Slip/Trip/Fall	6%
Other	6%



Board of Directors



Dennis Millard
Chairman



Chairman

Dennis Millard joined the Board as a non-executive director and Deputy Chairman on 31 August 2006 and became Chairman on 6 February 2008. He is Chairman of the Nominations Committee and a member of the Audit and Remuneration Committees. He is Chairman of Halfords Group plc, a non-executive director and Senior Independent Director of Premier Farnell plc and Xchanging plc, and a non-executive director of Debenhams plc. He was Finance Director of Cookson Group plc from 1996 to 2005 and was a non-executive director of Exel plc from 2003 until 2005. He is Chairman of Trustees of the charity The Holy Cross Children's Trust. Aged 60.



Mark Cashmore
Group Chief Executive



Executive directors

Mark Cashmore joined the Board on 31 August 2006 as Group Chief Executive. He started his career with Pernod Ricard before moving to United News and Media in 1989. Between 1989 and 1999 he held senior positions in a number of news distribution businesses, including Sales Director of United Magazine Distribution, USM and Seymour. He joined WH Smith News in 1999 and was appointed Magazine Sales Director in 2001 and Managing Director in June 2006. Aged 49.



Alan Humphrey
Group Finance Director



Alan Humphrey joined the Board on 31 August 2006. He was Finance Director of Our Price, Waterstone's, WH Smith High Street Retail and WH Smith News in a career with WH Smith that spanned 28 years. He left WH Smith in 2000 to be Finance Director of Waterstone's, now owned by HMV Media, before rejoining WH Smith as Finance Director of WH Smith News in November 2002. Aged 55.



Andrew Brent
Non-executive director



Non-executive directors

Andrew Brent is a non-executive director and joined the Board on 1 September 2008. He is a member of the Audit, Remuneration and Nominations Committees. He was most recently Group Brand Marketing Director of BSKyB and previously held senior marketing positions in a number of leading companies including Alliance Boots Plc, Burger King Inc., Iceland Frozen Foods Plc and Proctor and Gamble Inc. Aged 50.



Anthony Cann
Non-executive director



Anthony Cann is a non-executive director and joined the Board on 31 August 2006. He is Chairman of the Remuneration Committee and a member of the Audit and Nominations Committees. He is a solicitor, now non-practising, and was the worldwide Senior Partner of Linklaters, an international law firm, from 2001 until September 2006. He is a non-executive director of Panmure Gordon & Co. plc and was Chairman of Trustees of the charity Changing Faces from 2007 until 2009. Aged 62.



John Worby
Non-executive director



John Worby is a non-executive director and Senior Independent Director and joined the Board on 31 August 2006. He is Chairman of the Audit Committee and a member of the Remuneration and Nominations Committees. He is Finance Director of Genus plc and was previously Group Finance Director and Deputy Chairman of Uniq plc (formerly Unigate plc). He is the Senior Independent Director and Chairman of the Audit Committee of Cranswick plc. Aged 58.

Board Committees

Audit Committee

John Worby
Chairman

Andrew Brent

Anthony Cann

Dennis Millard

Nominations Committee

Dennis Millard
Chairman

Andrew Brent

Anthony Cann

John Worby

Remuneration Committee

Anthony Cann
Chairman

Andrew Brent

Dennis Millard

John Worby

Executive Management Team



Jon Bunting
Commercial Director



Commercial Director

Jon Bunting joined the business as a graduate recruit in 1994. Between 1994 and 2006 he held various sales and marketing managerial roles before being appointed Commercial Director on 31 August 2006. Aged 37.



Mark Charlton
Company Secretary



Company Secretary

Mark Charlton joined the business in 1993. Mark was appointed Business Planning Director in 2001. He was appointed Company Secretary on the demerger of WH Smith Retail on 31 August 2006. Aged 48.



Glenn Leech
Human Resources
Director



Human Resources Director

Glenn Leech joined the business in November 2004 from Ford Motor Company. He spent seven years at Ford, during which time he held a number of managerial positions in Employee Relations, HR Business Operations and as an HR Project Manager. Aged 34.



Graeme Underhill
Operations Director



Operations Director

Graeme Underhill joined the business in 1975. Graeme managed a number of depots before moving to Head Office in 1997 as Project Manager for the Business Process Review. He held various senior central roles including SAP Project Manager and Operations Development Manager before being appointed Operations Director in 2001. Aged 51.



Richard Webb
Information Systems
Director



Information Systems Director

Richard Webb joined the business as a graduate recruit in 1987. Richard worked in a variety of roles at warehouse locations and regional level before moving to Head Office in 1994 to join the Information Systems Department. He was appointed Information Systems Director in 2004. Aged 44.



Michael Neil
Managing Director
Bertrams



Managing Director, Bertrams

Michael Neil joined Bertrams in 2005. He has extensive experience in buying, marketing and operations, having formerly worked for WH Smith, Waterstone's, Blackwell's and Hammicks, and is a member of the Booksellers Association Council. Aged 46.

Directors' Report

The directors of Smiths News PLC (the 'Company') present their report and audited financial statements of the Company and its subsidiaries (the 'Group') for the year ended 31 August 2009.

The report contains certain forward-looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results to differ from those anticipated. Nothing stated in this report should be construed as a profit forecast.

Pages 40 to 43 inclusive (together with the sections of the Annual Report incorporated by reference) consist of a directors' report that has been drawn up and presented in accordance with and reliance upon applicable English company law and the liabilities of the directors in connection with the report shall be subject to the limitations and restrictions provided by such law.

Principal activities

The principal activities of the Group are the wholesale distribution of newspapers, magazines and books. Smiths News is the UK's leading wholesaler of newspapers and magazines, serving around 30,000 retailers across England and Wales. Bertrams, which was acquired on 20 March 2009, is a leading UK book wholesaler, supplying books to a mix of independent booksellers, on-line and multiple retailers, and libraries.

The principal companies affecting the profits or net assets of the Group in the year are listed in Note 31 to the Financial Statements.

Business Review

The Company is required by the Companies Act 2006 to set out in this report a review of the business of the Group during the financial year ended 31 August 2009, including an analysis of the position of the Group at the end of the financial year, a description of the principal risks and uncertainties facing the Group and an indication of likely future developments.

The information that fulfils the Business Review requirements can be found in the following sections of the Annual Report, which are incorporated into this report by reference:

- Chairman's Statement on page 8;
- Business Review, comprising the Operating Review and Financial Review, on pages 10 to 31; and
- Corporate Responsibility Review on pages 33 to 37.

Transactions

On 20 March 2009, the Company completed the Acquisition of Bertrams, formerly part of the Woolworths Group, for £8.6m in cash. The Company also purchased on 3 August 2009 certain assets from Dawson News for £1.5m in cash.

Further details of the Acquisition of Bertrams can be found in Note 24 to the Financial Statements.

Directors' Report

Profit and dividends

The profit for the financial year, after taxation, was £17.7m (2008: £26.5m).

The directors recommend the payment of a final dividend for the year of 4.6p per ordinary share (2008: 4.5p) on 5 February 2010 to members on the Register at the close of business on 8 January 2010.

This final dividend, together with the interim dividend of 2.2p per ordinary share paid on 12 June 2009, makes a total dividend of 6.8p per ordinary share for the year ended 31 August 2009 (2008: 6.7p).

Share capital

The Company's authorised share capital is £15,050,040 divided into 300,000,000 ordinary shares of 5p each, 40 deferred shares of £1 each and one redeemable preference share of £50,000. As at the date of this report there are 182,922,386 ordinary shares in issue.

The ordinary shares are listed on the London Stock Exchange and can be held in certificated or uncertificated form.

The rights and obligations attaching to the Company's ordinary, deferred and preference shares, in addition to those conferred on their holders by law, are set out in the Company's Articles of Association, a copy of which can be obtained by writing to the Company Secretary or from Companies House. The holders of ordinary shares are entitled to receive the Company's report and accounts, to attend and speak at general meetings of the Company, to appoint proxies and to exercise voting rights, and to receive dividends subject to the deduction of any sums due to the Company on account of calls or otherwise.

There are no specific restrictions on the size of a holding nor on the transfer of shares. The Company is not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. Changes to the Company's Articles must be approved by special resolution of the Company.

Details of the Company's employee share schemes are provided in the Remuneration Report on pages 51 to 63. The Trustee of the Smiths News Employee Benefit Trust waives its right to vote and to dividends on the shares that it holds.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

Issue of new ordinary shares

During the financial year ended 31 August 2009, 329 ordinary shares of the Company were issued under the Sharesave Scheme at a price of 85p. The Articles of Association of the Company provide that the Board may, subject to the prior approval of the members of the Company, exercise all the powers of the Company to allot relevant securities including new ordinary shares.

Purchase of own shares

At the Annual General Meeting held on 16 January 2009, authority was given for the Company to purchase, in the market, up to 18,291,993 ordinary shares of 5p each. The Company did not use this authority to make any purchases of its own shares during the financial year. This authority is renewable annually and approval will be sought from shareholders at the Annual General Meeting in 2010 to renew the authority for a further year.

Directors' Report

Substantial shareholdings

As at 22 October 2009 the Company had been notified, in accordance with Chapter 5 of the Disclosure and Transparency Rules, of the following significant holdings of voting rights in its shares:

Holder	Number	%	Nature of Holding
Silchester International Investors Limited	34,803,278	19.03	Direct
Standard Life Investments Limited	9,542,099	5.22	Direct and Indirect Interests
Legal & General Group Plc.	7,350,561	4.02	Direct Interest

Significant agreements - change of control

The Company's trading subsidiaries, Smiths News Trading Limited and Bertram Trading Limited, have agreements with publishers and distributors that contain change of control clauses giving rights to those publishers and distributors on a takeover of the Company.

A change of control of the Company following a takeover bid may cause a number of other agreements to which the Company, Smiths News Trading Limited or Bertram Trading Limited is party, such as banking arrangements, property leases and licence agreements to take effect, alter or terminate. In addition, the executive directors' service agreements and employee share plans would be similarly affected on a change of control, including in the case of the directors, compensation for loss of office if their contracts were terminated. Details of the change of control clause in the service contracts of the executive directors can be found in the Remuneration Report on page 57.

Directors

The directors are responsible for the management of the business of the Company and may exercise all the powers of the Company subject to applicable legislation and regulation and the Company's Memorandum and Articles of Association.

The names of the directors as at the date of this report, together with biographical details, are set out on page 38. All the directors served throughout the year.

The Company's Articles of Association give a power to the Board to appoint directors and (where notice is given signed by all the other directors) remove a director from office. They also give a power to the Company to appoint directors (by ordinary resolution)

and remove a director from office (by special resolution or by ordinary resolution of which special notice has been given). The Company's Articles of Association themselves may be amended by special resolution of the shareholders.

The Company's Articles of Association require that directors offer themselves for re-election every three years and that new directors appointed by the Board offer themselves for election at the next annual general meeting following their appointment.

Mark Cashmore and Dennis Millard, who have served as directors since 31 August 2006, retire from the Board and, being eligible, offer themselves for re-election. John Worby has led a thorough review of Dennis Millard's contribution to the Board and, following the formal performance evaluation carried out in August 2009, confirms that he continues to be an effective Chairman.

The interests of the directors and their immediate families in the share capital of the Company, along with details of directors' share options and awards, are set out in the Remuneration Report on pages 51 to 63.

At no time during the year did any of the directors have a material interest in any significant contract with the Company or any of its subsidiaries.

The Company maintains directors' and officers liability insurance which gives appropriate cover for any legal action brought against its directors. The Company has also provided an indemnity for its directors and secretary, to the extent permitted by law, which is a qualifying third party indemnity provision for the purposes of section 234 of the Companies Act 2006.

Directors' Report

Employees

The Group employs approximately 6,100 people (2008: 4,100) throughout the United Kingdom and it is proud of its long history of being regarded as a responsible and respected employer. Approximately 2,300 new employees joined the Group during the year as a result of the acquisitions of Bertrams in March 2009 (approximately 500 employees) and certain assets of Dawson News in August 2009 (approximately 1,800 employees).

Employees are kept well informed of the performance and objectives of the business through personal briefings and email and the Group's open management style encourages employees to contribute to the development of the business.

The Company operates a HM Revenue & Customs Approved Save-As-You-Earn share option scheme (Sharesave Scheme), which provides employees with the opportunity to acquire shares in the Company. Some 560 employees participate in this scheme (2008: 480).

The Board believes in creating throughout the Group a culture that is free from discrimination and harassment and will not permit or tolerate discrimination in any form. Proper consideration is given to applications for employment when these are received from disabled people and the Group employs disabled people whenever suitable vacancies arise. Should an employee become disabled when working for the Group, efforts are made to continue his/her employment and retraining is provided if necessary.

Charitable and political donations

Charitable donations during the year ended 31 August 2009 totalled £6,594 (2008: £34,826). The Group encourages its employees to give their time and skills for the benefit of a variety of charitable causes. Further details can be found in the Corporate Responsibility Review on page 36.

It is the Group's policy not to make political donations and no political donations or EU political expenditure were made in the year (2008: £nil).

Supplier payment policy

The Group's policy for the payment of suppliers, which complies with the CBI Code of Practice for Buyers, is to agree the terms of payment in advance in line with normal trade practice and, provided a supplier performs in accordance with the agreement, to abide by such terms. The Group's trade creditors figure as at the balance sheet date was equivalent to 34 days (2008: 30 days) based on average daily amounts invoiced by suppliers during the year. The Company is a holding company and does not have any trade creditors.

Disclosure of information to auditors

Each director confirms that, so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware and that each director has taken all the steps he ought reasonably to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Auditors

Resolutions to re-appoint Deloitte LLP as auditors to the Company and to authorise the Audit Committee to determine their remuneration will be proposed at the Annual General Meeting.

Annual General Meeting

The Annual General Meeting of the Company will be held at Wakefield House, Pipers Way, Swindon, Wiltshire SN3 1RF on 15 January 2010 at 11.30am. The Notice of Annual General Meeting is given, together with explanatory notes on the six items of special business to be considered at the meeting, in the booklet which accompanies this report.

By order of the Board

Mark Charlton
Company Secretary
22 October 2009

Corporate Governance

The Board is committed to achieving high standards of corporate governance. The principal governance rules applying to UK companies listed on the London Stock Exchange, for accounting periods beginning on or after 29 June 2008, are contained in the Combined Code on Corporate Governance adopted by the Financial Reporting Council in June 2008 (the 'Code') and in Chapter 7 of the Disclosure and Transparency Rules.

This report, together with the Remuneration Report on pages 51 to 63, describe how the Company has applied the main principles set out in Section 1 of the Code during the financial year ended 31 August 2009.

The Company has complied with the provisions set out in Section 1 of the Code throughout the financial year ended 31 August 2009.

The Board

On 22 October 2009, the Board comprised the Chairman, two executive directors and three independent non-executive directors. Short biographies of each of the directors, which illustrate their range of experience, are set out on page 38. There is a clear division of responsibility at the head of the Company; Dennis Millard (Chairman) being responsible for running the Board and Mark Cashmore (Group Chief Executive) being responsible for implementing group strategy. John Worby has been nominated by the Board as the Senior Independent Director. The Board structure ensures that no individual or group dominates the decision-making process.

Dennis Millard, who was non-executive Deputy Chairman until his appointment as Chairman on 6 February 2008, met the independence criteria set out in the Code on appointment as a director. Andrew Brent, Anthony Cann and John Worby, who served as non-executive directors throughout the year and up to the date of this report meet the independence criteria set out in the Code.

Dennis Millard, whose other directorships are described on page 38, was appointed Chairman of Halfords Group plc on 28 May 2009.

The Board believes that this appointment has not adversely affected his Chairmanship of the Company.

The Board, which had eight scheduled meetings and 12 additional meetings during the year, manages the Company through a formal schedule of matters reserved for its decision. These include overall management of the Company; approval of long term objectives and strategic plans; major capital expenditure; acquisitions and disposals; approval of the annual operating and capital expenditure budgets; approval of the financial statements, material agreements and non-recurring projects; treasury policy; control, audit and risk management; remuneration of directors and senior managers; and, corporate responsibility. It also delegates specific responsibilities to the Board Committees detailed below, the role and responsibilities of each Committee being set out in formal terms of reference which are reviewed annually. The terms of reference are available on the Company's website and from the Company Secretary on request.

All directors have access to the advice and services of the Company Secretary and may take independent professional advice at the Company's expense in the furtherance of their duties. The Board receives appropriate and timely information, Board and Committee papers being sent out several days before meetings take place.

All newly appointed directors receive induction training on joining the Board which is tailored to meet the needs of the individual and the need for director training is regularly assessed by the Board.

The Board carried out a formal evaluation of its performance and the performance of its committees and individual directors in August 2009. Each director completed an extensive questionnaire covering Board and committee procedures and effectiveness and individual contributions to Board and committee meetings. In September 2009, the non-executive directors met separately to review the Chairman's performance and provided feedback to him and the Chairman reviewed the contribution of each of the directors in separate individual discussions.

Corporate Governance

The results of the evaluation were reviewed by the Board in September 2009 and whilst it was considered the Board and its Committees were working effectively a number of actions were agreed to further improve effectiveness. These included scheduling additional depot visits following the increase in the size of the network as a consequence of the recent contract gains and the continuation of the programme of pre-Board meeting breakfast meetings with functional teams.

The Company's Articles of Association require that directors offer themselves for re-election every three years and that new directors appointed by the Board offer themselves for election at the next annual general meeting following their appointment.

Board Committees

Audit Committee

The Audit Committee is chaired by John Worby, who has recent and relevant financial experience, and its other members are Andrew Brent, Anthony Cann and Dennis Millard, who all have extensive business experience. Andrew Brent and Anthony Cann are independent non-executive directors and Dennis Millard was independent on appointment as a director in August 2006. The Committee comprised only two independent non-executive directors between 1 September and 22 September 2008 which, as the Company is a 'small company', complies with the Code. Andrew Brent was appointed to the Committee on 22 September 2008. The Code was amended in June 2008 to allow the Chairman of a small company to be a member of (but not Chair) the Audit Committee and, as such, Dennis Millard was re-appointed to the Committee on 18 November 2008. At the invitation of the Committee, the Group Chief Executive, Group Finance Director, Head of Internal Audit and representatives of the external auditors regularly attend meetings.

The Committee's terms of reference, which are available on the Company's website and from the Company Secretary on request, set out the responsibilities of the Committee, which include monitoring the integrity of the annual and interim financial statements and other announcements relating to financial performance; reviewing significant financial reporting issues and judgments which they contain; keeping under review the effectiveness of the internal control and risk management systems; monitoring and reviewing the effectiveness of external audit (including auditor independence) and internal audit; making recommendations to the Board as to the re-appointment or otherwise of the external auditors; and monitoring and reviewing the arrangements for employees to raise, in confidence, concerns about possible improprieties in matters of financial reporting, control and other matters ('whistleblowing').

The Committee met four times during the year and its activities included: reviewing the preliminary announcement, Annual Report and Financial Statements, interim announcement and interim results; considering reports from the external auditors reviewing any accounting or judgmental issues requiring its attention; approving audit plans for the external and internal auditors; considering reports from the Head of Internal Audit on the results of internal audit reviews, significant findings, management action plans, and timeliness of resolution; reviewing reports on the Company's risk management process; reviewing management of fraud risk and incidences of fraud; meeting privately with the external auditors and the Head of Internal Audit; reviewing the effectiveness of the external audit and internal audit activities; and reviewing the effectiveness of the Company's whistleblowing process.

Corporate Governance

Nominations Committee

The Nominations Committee is chaired by Dennis Millard and its other members are Andrew Brent, Anthony Cann and John Worby. Andrew Brent was appointed to the Committee on 22 September 2008.

The Committee's terms of reference, which are available on the Company's website and from the Company Secretary on request, set out the responsibilities of the Committee, which include reviewing the composition of the Board including the skills, knowledge and experience of the directors; ensuring plans are in place for the succession of directors and senior management; and identifying and nominating candidates to fill board vacancies.

The Committee met once during the year to consider these matters.

Remuneration Committee

The Remuneration Committee, which met six times during the year, is chaired by Anthony Cann and its other members are Andrew Brent, Dennis Millard and John Worby. Andrew Brent was appointed to the Committee on 22 September 2008. At the invitation of the Committee, the Group Chief Executive, Group Finance Director, HR Director and representatives of its external independent adviser may attend meetings. The Committee's principal responsibility is to determine and recommend to the Board the remuneration of executive directors and the Chairman. It also monitors the level and structure of remuneration for senior management and seeks to ensure that remuneration packages are designed to attract, retain, and motivate executive directors and senior management to run the Company successfully. The remuneration of the non-executive directors is determined by the Chairman and the executive directors.

The Remuneration Report is set out on pages 51 to 63 as required by the Directors' Remuneration Report Regulations 2002.

The Committee's terms of reference are available on the Company's website and from the Company Secretary on request.

Corporate Governance

Attendance at Board/Committee meetings

The following table shows the number of scheduled and additional Board meetings and Committee meetings held during the year ended 31 August 2009 and the attendance record of individual directors. The additional Board meetings were held to consider new contract gains and the acquisitions of Bertrams and certain assets of Dawson News.

Attendance					
	Board meetings			Committee meetings	
	Scheduled	Additional ^(a)	Audit	Nominations	Remuneration
No. of meetings	8	12	4	1	6
Dennis Millard	8	12	3 ^(b)	1	6
Mark Cashmore	8	12	-	-	-
Alan Humphrey	8	12	-	-	-
Andrew Brent ^(c)	8	11	3	1	6
Anthony Cann	8	11	4	1	6
John Worby	8	12	4	1	6

(a) Includes nine meetings held by telephone conference call.

(b) Dennis Millard was re-appointed to the Audit Committee on 18 November 2008.

(c) Andrew Brent was appointed to the Audit, Nominations and Remuneration Committees on 22 September 2008.

The Board has met twice since 31 August 2009 and all the directors attended both meetings. In addition, the Audit Committee has met once and the Nominations and Remuneration Committees have met twice since 31 August 2009.

Directors' conflicts of interest

The Companies Act 2006 (the 'Act') provides that a director must avoid situations where he can have a direct or indirect interest that conflicts or might conflict with the interests of the Company ('situational conflicts').

As permitted by the Act, the Company's Articles of Association, adopted by shareholders on 6 February 2008 with effect from 1 October 2008, contain provisions that allow the Board to consider and, if it sees fit, to authorise situational conflicts.

Prior to the introduction of these provisions on 1 October 2008, each director completed a questionnaire covering situational conflicts and other appointments and a formal system was put in place for directors to declare situational conflicts to be considered for authorisation by those directors who have no interest in the matter being considered.

Any situational conflicts considered by the Board, and any authorisations given, are recorded in the Board minutes and in a register of directors' conflicts which is reviewed annually by the Board.

Risk management and internal control

The Board has overall responsibility for the Company's system of risk management and internal control and for reviewing its effectiveness, whilst the role of management is to implement the Board's policies on risk and control and provide assurance on compliance with these policies. Such a system is, however, designed to manage or mitigate rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Corporate Governance

i) Risk management

The Board confirms that there is an ongoing process for identifying, evaluating and managing significant risks faced by the Company, including those risks relating to social, environmental and ethical matters. This process was in place throughout the year under review and up to the date of approval of the Annual Report and accords with the revised guidance on internal control published in October 2005 ('the Turnbull Guidance'). The Audit Committee has kept under review the effectiveness of the system of internal control and has reported regularly to the Board.

The Audit Committee has also carried out a specific review of the effectiveness of the system of internal control for the purpose of this Annual Report. This assessment considered all significant aspects of internal control arising during the period covered by this report including the work of internal audit. During the course of this review, the Audit Committee has not identified nor been advised of any failings or weaknesses which it has determined to be significant. Therefore a confirmation in respect of necessary actions has not been considered appropriate.

The key features of the risk management process are as follows:

- the Company has an internal Risk Committee responsible for monitoring risks across the business;
- the business conducts half-yearly risk assessments based on identified business objectives which are reviewed and agreed by its executive management. Risks are categorised into strategic, operational, financial and compliance and are evaluated in respect of their potential impact and likelihood. These risk assessments are updated and reviewed quarterly by the Risk Committee and are reported to the executive management and Audit Committee;
- the business risk assessment forms one of the bases for determining the internal audit plan. Audit reports in relation to areas reviewed are discussed with the Risk Committee and agreed with the Audit Committee; and

- the internal audit team meets annually with senior executives in order to complete a formal certification of the effectiveness of internal controls. These certificates are submitted to the Risk Committee. A Certificate is also provided by the Risk Committee to the Audit Committee, to assist the Board in conducting its annual review of the effectiveness of internal controls in compliance with Turnbull guidance.

ii) Internal control

a) Financial controls

The Company has an established framework of internal financial controls, the effectiveness of which is regularly reviewed by the executive management and the Board. The key elements of this are as follows:

- the Board is responsible for overall Group strategy, for approving revenue and capital budgets and plans, for approving major acquisitions and disposals and for determining the financial structure of the Group, including treasury and dividend policy. Monthly results and variances from plan and forecasts are reported to the Board;
- the Board has established an organisational structure with clearly defined lines of responsibility and controls at all levels of management across the business, identifying transactions requiring approval by the Board or by the Approvals Committee. The Approvals Committee, which comprises the Group Chief Executive and Group Finance Director, and for commercial transactions the relevant member of the executive management, is authorised by the Board to approve routine matters within agreed financial limits. The Group Finance Director is responsible for the functional leadership and development of the Group's finance activities;
- the Audit Committee assists the Board in the discharge of its duties regarding the Group's financial statements, accounting policies and the maintenance of proper internal financial controls. The Committee provides a direct link between the Board and the external auditors;
- the internal audit function advises and assists business management to establish and maintain adequate financial controls and reports to the executive management, Risk and Audit Committees on the effectiveness of those controls;

Corporate Governance

- there is a comprehensive system for budgeting and planning and for monitoring and reporting the performance of the Company's business to the Board. Monthly results are reported against budget and prior year, and forecasts for the current financial year are regularly revised in the light of actual performance. These cover profits, cash flows, capital expenditure and balance sheets;
- the Company carries out a full appraisal of all major investment projects;
- executive management has defined the financial controls and procedures with which the business is required to comply. Key controls over major business risks include reviews against performance indicators and exception reporting, and the preparation of monthly management accounts; and
- monthly reports are prepared to cover treasury activities and risks, for review by senior executives, and annual reports are prepared for the Board and Audit Committee covering treasury policies, pensions and insurance.
- a corporate responsibility programme has been approved by the Board to address the impact our activities have on the environment, workplace, marketplace and community;
- the Company has established a Corporate Responsibility Committee to take responsibility for reviewing performance in delivering corporate responsibility objectives and annual updates are provided to the Board;
- the Company has established a Code of Business Conduct which takes into account the interests of all stakeholders;
- the Company is committed to maintaining high standards of health and safety in all its business activities. These standards are set out in the Company's Health and Safety Policy, which is reviewed annually by the Board. The Risk Management team works with the business to assess health and safety risks and introduce systems to mitigate them. Details of major business incidents are reported to the Risk and Audit Committees and all notified accidents are investigated;

b) Non-financial controls

The Company has established a range of non-financial controls covering areas such as service levels to customers, health and safety, environment, employment and business continuity, the effectiveness of which is regularly reviewed by the executive management and the Board. The key elements are as follows:

- the business monitors service through rigorous key performance indicators at every location. Summary level data is provided to the Board on a monthly basis;
- the business commissions independently conducted surveys to establish levels of customer satisfaction and action plans are created for any significant issues that arise;
- the business has strict guidelines for the use of confidential customer data;
- the Board has approved an Environmental Policy which is reviewed annually;
- the Company is committed to ensuring that its personnel meet high standards of integrity and competence. The Company's systems cover the recruitment, training and development of personnel, an appropriate division of responsibilities and the communication of Company policies and procedures throughout the organisation; and
- business recovery plans exist to enable the business to continue with minimum disruption to customers in the event of a disaster. These plans are reviewed by the Risk Committee.

Corporate Governance

External auditors

The Audit Committee assesses the scope, fee, objectivity and effectiveness of the external auditors annually. The Committee has a policy formally to review the selection of external auditors at least every five years, including consideration of whether a tender process is appropriate. The current term of engagement of the incumbent external auditors, Deloitte LLP ('Deloitte'), is deemed to have commenced on 31 August 2006, being the date of demerger of old WH Smith PLC. In line with professional standards, Deloitte has a policy of rotating partners every five years.

The Committee also has a formal policy on the Company's relationship with the external auditors which includes financial approval limits for non-audit services and restrictions on the nature of work that can be performed to ensure that the external auditors objectivity is not impaired.

The Audit Committee, following its annual review, is satisfied that Deloitte continue to provide an effective audit service and has recommended to the Board that they be re-appointed. Accordingly, a resolution to re-appoint Deloitte will be put to shareholders at the Annual General Meeting. The fees paid to Deloitte in respect of non-audit services are shown in Note 3 to the Financial Statements.

Relations with shareholders

The Company recognises the importance of communicating with its shareholders to ensure that its strategy and performance is understood. This is achieved principally through the Company's website, www.smithsnews.co.uk, and the Annual General Meeting ('AGM'). The website provides a range of information about the Company, including Annual Reports, results announcements and presentations, AGM information, share price data, financial calendar and regulatory news releases.

Formal presentations are made to institutional shareholders following the announcement of the Company's full year and interim results. The Board recognises that the AGM is the principal forum for dialogue with private shareholders. All directors normally attend the AGM and are available to answer any questions that shareholders may wish to raise. The Notice of Meeting is sent to shareholders at least 20 working days before the meeting and includes notice of the availability of the Annual Report and Financial Statements on the Company's website.

Shareholders vote on each resolution on a show of hands, unless a poll is validly called, and after each such vote the number of proxy votes received for, against, and withheld is displayed. The proxy figures are made available in writing at the end of the meeting, announced to the London Stock Exchange and published on the Company's website.

The Board as a whole is kept fully informed of the views and concerns of major shareholders. The Group Chief Executive and Group Finance Director update the Board following meetings with major shareholders and independent feedback from shareholders is provided to the Board by the Company's advisers and brokers. If requested to do so, the Chairman and Senior Independent Director are available to attend meetings with major shareholders.

By order of the Board

Mark Charlton
Company Secretary
22 October 2009

Remuneration Report

This Remuneration report has been prepared on behalf of the Board by the Remuneration Committee. The Committee has adopted the principles of good governance as set out in the Combined Code and complies with Schedule 8 to the Accounting Regulations under the Companies Act 2006 and the Listing Rules of the Financial Services Authority.

Part A of the report, which is not subject to audit, sets out the Company's remuneration policy. Part B, which has been audited, provides details of the remuneration, pensions and share incentives of the directors for the year ended 31 August 2009. Shareholders will be asked to approve the report at the Annual General Meeting on 15 January 2010.

Part A - Unaudited information

Remuneration Committee

The Remuneration Committee is chaired by Anthony Cann and its other members throughout the year were Dennis Millard and John Worby. Anthony Cann and John Worby are both independent non-executive directors and Dennis Millard was independent on appointment as a director in August 2006. Andrew Brent, who is an independent non-executive director, was appointed to the Committee on 22 September 2008. The Committee met six times during the year.

The Committee's terms of reference, which are available on the Company's website and from the Company Secretary on request, set out the responsibilities of the Committee which include determining and agreeing with the Board the broad policy for the remuneration of the Chairman, executive directors and certain other senior executives; in determining such policy to take into account all factors which it deems necessary, the objective of such policy being to ensure that executive management are provided with appropriate incentives to encourage

enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company; reviewing the policy for any performance related pay schemes operated by the Company; reviewing the design of all share incentive plans for approval by the Board and shareholders; ensuring that contractual terms on termination, and any payments made, are fair to the individual and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised; and in consultation with the Chief Executive as appropriate, determining the total individual remuneration package of each executive director and other senior executives including bonuses and share incentives.

During the year the Committee received external advice and services from Mercer Human Resource Consulting ('Mercer') and Deloitte LLP, who succeeded Mercer as external independent adviser in January 2009. Deloitte LLP also provided audit services to the Company. Glenn Leech, Human Resources Director also materially assisted the Committee in carrying out its duties, except in relation to his own remuneration.

Remuneration policy

The Company's remuneration policy aims to encourage a performance-based culture, attract and retain high calibre executive directors and align the interests of executive directors and shareholders. In forming this policy the Committee has adopted the principles set out in Section B of the Combined Code.

The aims of the policy are achieved by providing a remuneration package, comprising salary and benefits, positioned around the median of a comparator group of peer companies, pension provision and performance related benefits. Any payments made to executive directors other than salary are not pensionable.

Remuneration Report

The performance related benefits, which consist of an annual bonus, an economic profit bonus and long-term incentive ('LTIP'), account for a significant proportion of total remuneration.

In line with the Association of British Insurers' Guidelines on Responsible Investment Disclosure, the Committee will ensure that the incentive structure for executive directors and senior management will not raise environmental, social or governance ('ESG') risks by inadvertently motivating irresponsible behaviour. More generally, with regard to the overall remuneration structure, there is no restriction on the Committee which prevents it from taking into account corporate governance on ESG matters.

Following the OFT announcement on the industry in October 2008, the Committee reviewed both the competitiveness and structure of executive incentive schemes with a view to aligning executive incentives more closely to the steps required to build shareholder value over the longer term. As a result of this review, and after consultation with major shareholders, it was decided to introduce a new incentive plan, the Economic Profit Plan ('EPP') and to re-balance the different forms of incentives and opportunities.

The overall maximum remuneration opportunity remains unchanged at 300 per cent of salary for Mark Cashmore and 255 per cent of salary for Alan Humphrey. The key changes were to decrease the annual bonus opportunity (at maximum performance, for Mark Cashmore from 150 per cent to 100 per cent of base salary and for Alan Humphrey from 120 per cent to 80 per cent of base salary) and to introduce an EPP bonus opportunity (at maximum performance, for Mark Cashmore 50 per cent of base salary and for Alan Humphrey 40 per cent of base salary). Given the circumstances of the year, it was decided for the year under review to increase the proportion of the annual bonus paid in the form of deferred shares. In light of the prevailing business environment, it was also decided to change the LTIP performance target from an EPS growth target to an absolute cumulative EPS target and to establish the threshold level of vesting at 20 per cent, rather than 35 per cent. The Annual Bonus Plan, EPP and LTIP are described in more detail below.

Relative value of remuneration package 2009/10

The table below shows the expected relative value at target and maximum performance levels of the fixed and performance-related elements of the executive directors' remuneration package for the financial year ending 31 August 2010.

	Fixed element		Performance-related elements					
	Base salary		Annual Bonus Plan ^(a)		EPP ^(b)		LTIP	
	Target	Max.	Target	Max.	Target	Max.	Target	Max.
Mark Cashmore	55%	33%	26%	33%	14%	17%	5%	17%
Alan Humphrey	61%	39%	23%	31%	12%	16%	4%	14%

(a) 33 per cent of the annual bonus will be paid in the form of shares, the receipt of which is deferred for two years (see Deferred Bonus Plan below).

(b) 50 per cent of the EPP bonus will be paid in the form of shares, the receipt of which is deferred for two years (see Deferred Bonus Plan below).

(c) The above table does not include the value of other benefits such as the provision of a company car and private medical insurance and employer pension contributions.

Remuneration Report

Salary and benefits

The salaries of executive directors are reviewed annually in September. When conducting this review, the Committee takes into account a range of factors including the Company's performance, market conditions, the prevailing market rates for similar positions in a comparable group of companies, the responsibilities, individual performance and experience of each executive director and the level of salary increases awarded to employees throughout the Company.

For the year under review, Mark Cashmore and Alan Humphrey agreed to a pay freeze. In light of the significant increase in the scale and complexity of the Group following the contract gains and acquisitions of Bertrams and certain assets of Dawson News, and a review of remuneration in comparable companies, the Committee has increased the basic salaries of Mark Cashmore and Alan Humphrey with effect from 1 September 2009 to bring them nearer to market median. The salary of Mark Cashmore has been increased from £275,000 to £320,000 and the salary of Alan Humphrey has been increased from £185,000 to £200,000.

Executive directors also receive taxable benefits including the provision of a company car and private medical insurance.

The fees paid to non-executive directors are determined by the Chairman and the executive members of the Board and take into account the required time commitment and the fee payments for non-executive directors of similar organisations. There were no changes to the fees paid to non-executive directors during the year under review. Non-executive directors do not participate in any bonus or share schemes.

Annual Bonus Plan

The plan is designed so that the level of bonus paid is dependent on the achievement of a profit before tax target and personal performance. Target level is based on the achievement of stretching performance; maximum level requires outstanding performance.

For the year under review, Mark Cashmore had the opportunity to receive an annual bonus up to a maximum of 100 per cent of base salary (55 per cent at target level) and Alan Humphrey had the opportunity to receive an annual bonus up to a maximum of 80 per cent of base salary (45 per cent at target level), a significant proportion of which is payable in the form of shares, the receipt of which is deferred for two years (see Deferred Bonus Plan below).

Mark Cashmore's annual bonus for the year under review was £247,500, of which £137,500 will be paid in cash in November 2009 and £110,000 will be paid in the form of shares. Alan Humphrey's annual bonus for the year under review was £129,500, of which £74,000 will be paid in cash in November 2009 and £55,500 will be paid in the form of shares. These bonuses include an amount paid at the Committee's discretion to recognise the outstanding progress made towards the Company's strategic objectives during the year.

For the year ending 31 August 2010, Mark Cashmore can earn an annual bonus up to a maximum of 100 per cent of base salary (47.5 per cent at target level) and Alan Humphrey can earn an annual bonus up to a maximum of 80 per cent of base salary (37.5 per cent at target level), of which one third is payable in shares.

Remuneration Report

Economic Profit Plan

Under this plan, executive directors and key senior executives may receive each year a cash payment and/or be granted a share award under the terms of the Deferred Bonus Plan, based on the value of an economic profit Pool. The value of the Pool is determined by the economic profit (calculated as profit after tax less the cost of capital employed) created in each financial year, with 10 per cent of this economic profit (9 per cent in the year under review to reflect the lower than normal tax charge) being contributed to the Pool (if there is an economic loss in any year the value of the Pool will be diminished). One third of the Pool is then distributed to participants each year and two thirds is carried forward to form part of the Pool for the following year. The main objects of the plan are to retain key executives and to incentivise the executive management team to generate profits over and above the Group's cost of capital. Mark Cashmore is able to receive awards each year up to a maximum of 50 per cent of base salary (16 per cent at target level for the year under review) and Alan Humphrey is able to receive awards each year up to a maximum of 40 per cent of base salary (13 per cent at target level for the year under review). Due to the nature of the plan, expected payout at target level will increase during the first three years of its operation. It is current policy that 50 per cent of the annual payout will be in cash and 50 per cent will be in the form of deferred shares (see Deferred Bonus Plan below). However, the Committee reserves the right to change these proportions for future years in light of the circumstances prevailing at the time.

The economic profit generated in the year to 31 August 2009 resulted in contributions to the economic profit Pool of 49 per cent of base salary for Mark Cashmore and 39 per cent of base salary for Alan Humphrey. Of this Pool, Mark Cashmore will receive £44,850, of which £22,425 will be paid in cash in November 2009 and £22,425 will be paid in the form of shares and Alan Humphrey will receive £24,137, of which £12,069 will be paid in cash in November 2009 and £12,068 will be paid in the form of shares.

Deferred Bonus Plan

Under this plan, executive directors and key senior executives may be granted each year share awards (in the form of nil cost options) representing a proportion of the bonuses earned under the Annual Bonus Plan and/or Economic Profit Plan. The shares under award are released after two years, subject to continued employment.

As described under Annual Bonus Plan and Economic Profit Plan, for performance in the year under review, Mark Cashmore and Alan Humphrey will be granted share awards under this plan with market values at the date of grant of £110,000 and £55,500 respectively in connection with the Annual Bonus Plan and £22,425 and £12,068 respectively in connection with the Economic Profit Plan. These awards will be granted in November 2009.

Long-term incentives

Smiths News LTIP

Under this plan, approved by shareholders of old WH Smith PLC in August 2006, executive directors and key senior executives may be awarded each year conditional entitlements to ordinary shares in the Company (in the form of nil cost options) or, in order to retain flexibility and at the Company's discretion, a cash sum linked to the value of a notional award of shares up to a value of 200 per cent of base salary.

The vesting of awards is subject to the satisfaction of a performance condition, which is determined by the Remuneration Committee at the time of grant. The Committee believes that for executive directors and Smiths News senior executives earnings per share ('EPS') is the most appropriate measure of the Company's performance.

For awards granted in November 2006 and November 2007, the performance condition is based on real growth in the Company's EPS over the three years ending 31 August 2009 and 31 August 2010 respectively (the 'Performance Period') as set out in the following table.

Remuneration Report

Annual rate of growth in EPS (compounded annually) in excess of growth in RPI over the Performance Period	Proportion exercisable
Below 3%	Zero
3%	35%
Pro-rating applies between these points	Between 35% and 100%
9% or more	100%

In light of the prevailing business environment, for awards granted to the executive directors and Smiths News senior executives in April 2009, the performance condition is based on the Company's aggregate absolute EPS over the three years ending 31 August 2011 (the 'Performance Period') as set out in the following table.

Aggregate EPS performance over the Performance Period	Proportion exercisable
Below 41p	Zero
41p	20%
Pro-rating applies between these points	Between 20% and 100%
45p or more	100%

For the purposes of the above targets, EPS will be determined by reference to basic earnings per share, as defined by IAS 33, before non-recurring items and their associated tax impact, adjusted by the Committee as considered appropriate to ensure consistency.

Smiths News share option schemes

The Company operates two types of share option scheme both of which were approved by shareholders of old WH Smith PLC in August 2006:

- a) an Executive Share Option Scheme which is used to grant options to executives up to an annual limit of 200 per cent of base salary. The performance condition for options granted in November 2006 and November 2007 is based on real growth in the Company's EPS and is the same as the 2006 and 2007 LTIP performance condition described above. Options granted in November 2008 will only be exercisable if the Company's profit before tax for the year ending 31 August 2011 exceeds £30m. The executive directors did not participate in this Scheme in the financial year ended 31 August 2009 and will not participate in the current financial year; and
- b) an Inland Revenue Approved Save-As-You-Earn share option scheme (the 'Sharesave Scheme'). The Sharesave Scheme is open to all employees who have completed one year's service and who enter an approved savings contract for a term of three or five years. The maximum amount which can be saved is £250 per month, the total savings at the end of the term being used to purchase shares at 80 per cent of their market value at the start of the savings contract. In common with most schemes of this type, there are no performance conditions applicable to options granted under the Sharesave Scheme.

Remuneration Report

Pre-demerger share plans

Following the demerger of WH Smith Retail on 31 August 2006, participants in the old WH Smith PLC share plans received replacement options and awards over the Company's and, in the case of the WH Smith 2004 Management Investment Plan, new WH Smith PLC's shares for their existing options and awards. These new options and awards had the same intrinsic value as the original options and awards at the date of exchange. The related performance conditions were adjusted to be equivalent to the performance conditions that existed prior to the demerger.

WH Smith 2004 Management Investment Plan

Under this plan, executive directors and key senior executives invested an amount up to 75 per cent of base salary in the shares of old WH Smith PLC ('Investment Shares') and were granted matching awards (in the form of nil cost options) to acquire further ordinary shares in proportion to the amount they invested.

As a result of the demerger, participants received shares in both the Company and new WH Smith PLC and were required either to continue to hold the shares in both companies or sell the shares of new WH Smith PLC and purchase with the proceeds of that sale (net of taxes and dealing costs) shares in the Company by 30 November 2006. The matching awards were adjusted so that for each old WH Smith PLC share previously subject to a matching award, there was one share in the Company and one share in new WH Smith PLC subject to the adjusted matching award.

Following extensive consultation with shareholders, the Remuneration Committee of old WH Smith PLC adopted a combination of financial and market-based performance conditions aimed at delivering enhanced returns to shareholders, 50 per cent of the award being dependent on an EPS condition and 50 per cent being dependent on a Total Shareholder Return ('TSR') condition.

The original EPS performance condition required the EPS of old WH Smith PLC to grow by RPI plus 20 per cent per annum over the three year period ended 31 August 2007 (the 'EPS performance period') for vesting at threshold performance and by RPI plus 30 per cent per annum over the EPS performance period for vesting at maximum performance.

The EPS of old WH Smith PLC for the purposes of the plan performance condition in the base year was 18.5p. This condition was amended to relate to the performance of the Company and required EPS for the year ended 31 August 2007 of 11.6p for threshold performance and 14.6p for maximum performance. Actual EPS for the year ended 31 August 2007 for the purposes of the plan performance condition was 13.9p and resulted in 44 per cent of matching awards vesting on 31 January 2008.

The original TSR performance condition measured the TSR of old WH Smith PLC against the TSR of a notional investment in the FTSE All Share General Retailers Index over the TSR performance period. This condition was amended so that at the end of the performance period the market capitalisation of the Company and new WH Smith PLC plus reinvested dividends paid over the whole of the performance period (whether paid by old WH Smith PLC, the Company or new WH Smith PLC) were added together to determine the percentage of matching awards that vest. In this way, the value of the TSR of old WH Smith PLC over the period up to the demerger was added to that of the Company and new WH Smith PLC for the remainder of the performance period. The result, which was calculated by Mercer, was that the condition required TSR of 7.3 per cent for threshold performance and 27.6 per cent for maximum performance. Actual TSR over the TSR performance period was 33.1 per cent and resulted in 50 per cent of matching awards vesting on 31 January 2008.

For threshold performance, awards vest in respect of shares having a value equivalent (by reference to the share price at grant) to one and a half times the invested amount and for maximum performance awards vest in respect of shares having a value equivalent to three times the invested amount. Between threshold performance and maximum performance awards vest on a straight line basis.

The matching awards vested at a level of 94 per cent on 31 January 2008, 75 per cent of the value of the vested awards being exercisable from 31 January 2008 to 31 January 2010 and the remaining 25 per cent being exercisable from 31 January 2009 to 31 January 2010.

Remuneration Report

WH Smith Executive Share Option Scheme 1999

For options granted in 2004 and 2005, the performance condition is based on the Company's adjusted EPS growth over a fixed three-year period, the proportion of options that become exercisable increasing on a straight-line basis from 40 per cent for growth of RPI plus 9 per cent to 100 per cent for growth of RPI plus 15 per cent.

For those options granted in November 2004, adjusted EPS growth exceeded RPI plus 15 per cent over the three year period ended 31 August 2007 and, as such, these options became exercisable in full on 3 November 2007.

For those options granted in November 2005, adjusted EPS growth exceeded RPI plus 15 per cent over the three year period ended 31 August 2008 and, as such, these options became exercisable in full on 2 November 2008.

Personal shareholdings

During the year the Company introduced shareholding guidelines for its senior management. These guidelines require executive directors to build up over a period of five years and then maintain a target holding of 100 per cent of salary and all other executives to build up over a period of five years and then maintain a target holding of 75 per cent of salary.

Contracts of service

The contract dates and notice periods for each executive director are as follows:

Contracts of service			
	Date of contract	Notice period by Company	Notice period by director
Mark Cashmore	4 July 2006	1 year	9 months
Alan Humphrey	4 July 2006	1 year	9 months

It is the Company's policy to enter into contracts of employment with executive directors which may be terminated at any time by the Company upon twelve months' notice and upon nine months' notice by the executive director. In the event of a change of control of the Company there is a provision in each executive director's contract which provides for a payment of liquidated damages of 95 per cent of salary and benefits if the contract is terminated in breach of the notice period.

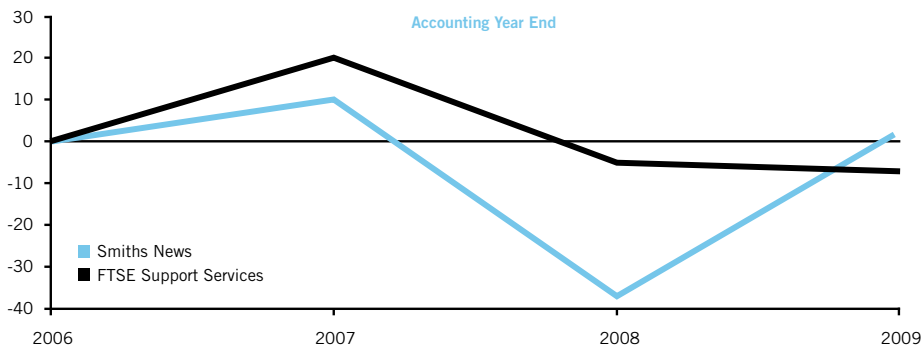
In other circumstances, the Committee believes that any question of compensation should be decided upon at the appropriate time rather than in advance so that the principle of mitigation is applied in the particular circumstances.

The Chairman and other non-executive directors, who have letters of appointment, are appointed for an initial term of three years, which may be terminated at any time upon three months' written notice on either side, and are subject to review thereafter.

Remuneration Report

Performance graph

Cumulative TSR growth since 31 August 2006



- a) The graph illustrates the TSR performance of the Company on a cumulative basis (with dividends reinvested) since the demerger of WH Smith Retail on 31 August 2006 compared with the FTSE Support Services Sector Index over the same period.
- b) Smiths News PLC is a member of the FTSE Support Services sector and, as such, this sector was considered to be the most appropriate comparator group upon which a broad equity market index is calculated.

Smiths News Employee Benefit Trust

The Smiths News Employee Benefit Trust is used to facilitate the acquisition of ordinary shares in the Company for the purpose of satisfying awards and options granted under the Company's executive share schemes including the pre-demerger share plans. The Trust is a discretionary trust, the sole beneficiaries being employees (including executive directors) and former employees of the Company. The Trust waives its right to vote and to dividends on the shares that it holds. The Trustee is Lloyds TSB Offshore Trust Company Limited, an independent professional trustee company based in Jersey.

The number of shares held in the Smiths News Employee Benefit Trust at 31 August 2009 was 3,035,060. The accounting treatment is shown in the Reconciliation of Movements in Equity in Note 29 to the Financial Statements.

Dilution limits

Awards of long-term incentives are satisfied using market purchase shares. The Company's share plans comply with recommended guidelines on dilution limits and the Company has always operated within these limits.

Pensions

For the year under review, the Company operated two defined contribution pension schemes, the money purchase section of the WH Smith Pension Trust, for those employees who were active members of the defined benefit section of the WH Smith Pension Trust on 1 May 2007 and the WH Smith Retirement Savings Plan. The Company ceased service accruals for active members of the defined benefit pension scheme on 1 May 2007.

The executive directors participate in the Smiths News section of the WH Smith Retirement Savings Plan. Under this plan an executive director may contribute up to an amount equivalent to 5 per cent of salary which is then matched by the Company. In addition, a salary supplement, in respect of pension entitlement, is also payable which may be taken as an additional pension contribution or as an addition to basic pay. For the financial year to 31 August 2009 the salary supplement was equivalent to 25 per cent of salary.

External appointments

It is the Company's policy to allow each executive director to accept one non-executive directorship of a publicly quoted company provided that it is not a chairmanship of a FTSE 100 company. Non-executive directorships must not conflict with the interests of the Company. Executive directors may retain the fee for such an appointment.

Remuneration Report

Part B - Audited information

Directors' remuneration

The remuneration of the directors for the financial year ended 31 August 2009 was as follows:

Directors' remuneration							
	Salary/ fees	Annual Bonus	Economic Profit Plan	Pension Supplement and benefits	Total	Year to 31 August 2008	
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	
Executive							
Mark Cashmore	275	138	22	60	495	486	
Alan Humphrey	185	74	12	70	341	342	
Non-executive							
Dennis Millard (Chairman)	110	-	-	-	110	84	
Andrew Brent	35	-	-	-	35	-	
Anthony Cann	40	-	-	-	40	40	
John Worby	40	-	-	-	40	40	
Brendan Fitzmaurice	-	-	-	-	-	55	
Total £'000s	685	212	34	130	1,061	1,047	

- Pension supplement and benefits: this includes any pension salary supplement taken as an addition to basic pay, the provision of a company car and private medical insurance.
- Mark Cashmore earned an annual bonus of £247,500, of which £110,000 is in the form of shares, the receipt of which is deferred for two years, subject to continued employment. This share award will be granted in November 2009.
- Alan Humphrey earned an annual bonus of £129,500, of which £55,500 is in the form of shares, the receipt of which is deferred for two years, subject to continued employment. This share award will be granted in November 2009.
- Mark Cashmore will receive an Economic Profit Plan payout of £44,850, of which £22,425 is in the form of shares, the receipt of which is deferred for two years, subject to continued employment. This share award will be granted in November 2009.
- Alan Humphrey will receive an Economic Profit Plan payout of £24,137, of which £12,068 is in the form of shares, the receipt of which is deferred for two years, subject to continued employment. This share award will be granted in November 2009.
- Brendan Fitzmaurice retired from the Board on 6 February 2008.
- All of the directors, with the exception of Brendan Fitzmaurice, served throughout the year

Remuneration Report

Directors' pensions

WH Smith Retirement Savings Plan

The following executive directors were members of the Smiths News section of the WH Smith Retirement Savings Plan defined contribution scheme during the year ended 31 August 2009:

Directors' pensions				
	Employee contribution		Employer contribution	
	% of salary	£'000s	% of salary	£'000s
Mark Cashmore	15	41	5	14
Alan Humphrey	5	9	5	9

- Executive directors receive a salary supplement which may be taken as an additional pension contribution or as an addition to basic pay; this payment if taken as an addition to basic pay is included in the table of Directors' remuneration under the heading Pension supplement and benefits.
- Mark Cashmore received a salary supplement of 25 per cent of salary, 10 per cent of which was taken as an additional pension contribution and is included in the Employee contribution in the above table and 15 per cent of which was taken as an addition to basic pay and is included in the table of Directors' remuneration.
- Alan Humphrey received a salary supplement of 25 per cent of salary, all of which was taken as an addition to basic pay and is included in the table of Directors' remuneration.
- The dependants of executive directors are eligible for payment of a lump sum in the event of death-in-service equivalent to four times salary.

Remuneration Report

Long-term incentives

Directors' share awards

Details of the conditional awards (in the form of nil cost options) to acquire ordinary shares of the Company, and, in respect of the Management Investment Plan, ordinary shares of new WH Smith PLC, granted to directors are as follows:

	Date of Grant	Number of shares subject to awards at 1 September 2008		Number of shares subject to awards granted during the year	Number of shares subject to awards exercised during the year		Number of shares subject to awards at 31 August 2009	Share price at date of grant (pence)	Exercise period
		SN	WHS		SN	WHS			
Mark Cashmore									
WH Smith 2004 Management Investment Plan	03.11.04	44,023	776	-	44,023	776	-	343.00	31.01.09 - 31.01.10
Smiths News LTIP	16.11.06	196,078	-	-	-	-	196,078	127.50	Oct 2009 - 16.11.16
	15.11.07	124,243	-	-	-	-	124,243	110.67	Oct 2010 - 15.11.17
	30.04.09	-	-	137,267	-	-	137,267	100.17	Oct 2011 - 30.04.19
Total		364,344	776	137,267	44,023	776	457,588		
Alan Humphrey									
WH Smith 2004 Management Investment Plan	03.11.04	92,190	1,624	-	92,190	1,624	-	343.00	31.01.09 - 31.01.10
Smiths News LTIP	16.11.06	105,882	-	-	-	-	105,882	127.50	Oct 2009 - 16.11.16
	15.11.07	58,507	-	-	-	-	58,507	110.67	Oct 2010 - 15.11.17
	30.04.09	-	-	64,640	-	-	64,640	100.17	Oct 2011 - 30.04.19
Total		256,579	1,624	64,640	92,190	1,624	229,029		

Remuneration Report

- a) For awards granted under the WH Smith 2004 Management Investment Plan ('MIP'), the numbers of shares subject to awards at 1 September 2008 and the numbers of shares exercised during the year are in respect of ordinary shares in both the Company ('SN') and new WH Smith PLC ('WHS'). The share price for such awards is the middle market quotation for old WH Smith PLC's shares as at the date of the award. The performance conditions applicable to these awards, which are set out on page 56, have been met to the extent that approximately 94 per cent of the numbers of shares under awards vested on 31 January 2008. 75 per cent of the awards were exercisable from 31 January 2008 to 31 January 2010 and 25 per cent were exercisable from 31 January 2009 to 31 January 2010.
- b) The number of shares subject to awards granted under the Smiths News LTIP is the maximum (100 per cent) number of shares that could be received by the director if the performance targets as set out on pages 54 and 55 are fully met.
- c) No option price is payable on either the grant or exercise of any award.
- d) Mark Cashmore exercised the remaining 25 per cent of the MIP award granted to him on 3 November 2004 on 5 May 2009. The market value of the Company's shares on the date of exercise was £44,227 (100.46p per ordinary share) and the market value of the WHS shares on the date of exercise was £3,286 (423.50p per ordinary share).
- e) Alan Humphrey exercised the remaining 25 per cent of the MIP award granted to him on 3 November 2004 on 5 May 2009. The market value of the Company's shares on the date of exercise was £92,617 (100.46p per ordinary share) and the market value of the WHS shares on the date of exercise was £6,878 (423.50p per ordinary share).
- f) The total gains made by all directors on the exercise of share awards under the MIP was £147,008.
- g) No conditional share awards have vested or lapsed during the year ended 31 August 2009.
- h) No conditional share awards have been granted to or exercised by directors between 1 September 2009 and 22 October 2009.

Directors' share options

Details of the options to acquire ordinary shares of the Company granted to directors are as follows:

	Date of Grant	Number of shares subject to options at 1 September 2008	Number of shares subject to options granted during the year	Number of shares subject to options exercised during the year	Number of shares subject to options at 31 August 2009	Option price (pence)	Exercise period
Mark Cashmore							
WH Smith Executive Share Option Scheme 1999	03.11.04	64,203	-	-	64,203	81.00	03.11.07 - 02.11.14
	02.11.05	169,022	-	-	169,022	88.00	02.11.08 - 01.11.15
Smiths News Sharesave Scheme	29.11.06	3,750	-	-	3,750	100.80	01.02.10 - 31.07.10
	04.06.08	4,423	-	-	4,423	85.00	01.08.11 - 31.01.12
	24.06.09	-	2,310	-	2,310	79.20	01.09.12 - 28.02.13
Total		241,398	2,310	-	243,708		
Alan Humphrey							
WH Smith Executive Share Option Scheme 1999	03.11.04	57,696	-	-	57,696	81.00	03.11.07 - 02.11.14
	02.11.05	177,404	-	-	177,404	88.00	02.11.08 - 01.11.15
Smiths News Sharesave Scheme	29.11.06	3,750	-	-	3,750	100.80	01.02.10 - 31.07.10
Total		238,850	-	-	238,850		

Remuneration Report

- a) The middle market price of an ordinary share at the close of business on 28 August 2009 was 120p (29 August 2008: 80.25p).
- b) The high and low middle market prices of an ordinary share during the year were 120p and 46p respectively.
- c) The options granted under the WH Smith Executive Share Option Scheme 1999 on 3 November 2004 and 2 November 2005 met the performance condition for maximum vesting as set out on page 57 and, as such, these options became exercisable in full on 3 November 2007 and 2 November 2008 respectively.
- d) No share options were exercised by directors or lapsed during the year ended 31 August 2009.
- e) No share options have been granted to or exercised by directors between 1 September 2009 and 22 October 2009.

Directors' interests in shares

The beneficial interests of the directors and their immediate families in the ordinary shares of the Company are set out below:

	31 August 2009	31 August 2008
Andrew Brent	-	-
Anthony Cann	30,000	30,000
Mark Cashmore	109,736	83,801
Alan Humphrey	168,484	114,169
Dennis Millard	75,000	60,000
John Worby	12,000	12,000

There has been no change in the directors' interests shown above between 1 September 2009 and 22 October 2009.

By order of the Board

Anthony Cann

Chairman of the Remuneration Committee
22 October 2009

Directors' Responsibilities Statement

The directors are responsible for preparing the Annual Report, Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. The directors are required by the IAS Regulation to prepare the Group financial statements under IFRSs (IFRSs) as adopted by the European Union. The Group financial statements are also required by law to be properly prepared in accordance with the Companies Act 2006 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that IFRS financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The parent company financial statements are required by law to give a true and fair view of the state of affairs of the Company. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;

- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the parent company financial statements comply with the Companies Act 2006.

They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into 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 that they face.

By order of the Board

Mark Cashmore
Group Chief Executive
22 October 2009

Alan Humphrey
Group Finance Director
22 October 2009

Independent Auditors' Report to the Members of Smiths News PLC

We have audited the group financial statements of Smiths News PLC for the year ended 31 August 2009, which comprise the Group Income Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Recognised Income and Expense and the related notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with sections 495 and 496 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 August 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in Note 1 to the group financial statements, the group in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the group financial statements comply with IFRSs as issued by the IASB.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement contained within the Directors' report in relation to going concern; and
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Independent Auditors' Report to the Members of Smiths News PLC

Other matter

We have reported separately on the parent company financial statements of Smiths News PLC for the year ended 31 August 2009 and on the information in the Directors' Remuneration Report that is described as having been audited.

Mark Mullins (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Reading, United Kingdom
22 October 2009

Group Income Statement

For the year ended 31 August 2009

£m		2009			2008		
	Note	Underlying*	Non-recurring and other items **	Total	Underlying*	Non-recurring and other items **	Total
Continuing operations							
Revenue	2	1,326.0	-	1,326.0	1,240.6	-	1,240.6
Operating profit	3	32.4	(10.8)	21.6	36.0	0.1	36.1
Investment revenues	7	1.2	1.4	2.6	0.8	-	0.8
Finance costs	8	(3.1)	(2.7)	(5.8)	(4.3)	-	(4.3)
Profit before tax		30.5	(12.1)	18.4	32.5	0.1	32.6
Income tax expense	9	(5.7)	5.0	(0.7)	(6.5)	0.4	(6.1)
Profit for the year		24.8	(7.1)	17.7	26.0	0.5	26.5
Earnings per share							
Basic	11	13.8p		9.9p	14.5p		14.8p
Diluted	11	13.8p		9.9p	14.4p		14.7p
Equity dividends per share	10			6.8p			6.7p

* Before non-recurring and other items.

** Non-recurring and other items are set out in Note 3 to the financial statements.

Group Balance Sheet

As at 31 August 2009

£m	Note	2009	2008
Non-current assets			
Intangible assets	12	12.7	4.1
Property, plant and equipment	13	21.1	15.5
Investments in joint venture and associate	14	3.5	3.3
Deferred tax assets	20	3.3	11.6
Derivative financial instruments	22	-	0.2
		40.6	34.7
Current assets			
Inventories		31.1	12.2
Trade and other receivables	15	114.8	60.5
Cash and cash equivalents	15	4.3	3.4
		150.2	76.1
Total assets		190.8	110.8
Current liabilities			
Trade and other payables	16	(191.6)	(113.1)
Current tax liabilities		(1.2)	(6.8)
Obligations under finance leases	18	(1.5)	(1.4)
Bank loans and other borrowings	21	(15.1)	(5.0)
Provisions	19	(3.8)	-
Derivative financial instruments	22	(0.2)	(0.6)
		(213.4)	(126.9)
Non-current liabilities			
Bank loans and other borrowings	21	(34.3)	(39.7)
Retirement benefit obligation	4	-	-
Deferred tax liabilities	20	(2.0)	(10.1)
Long-term provisions	19	(4.6)	(0.7)
Obligations under finance leases	18	(2.9)	(1.3)
Derivative financial instruments	22	(1.3)	-
Other non-current liabilities	17	(0.7)	(0.4)
		(45.8)	(52.2)
Total liabilities		(259.2)	(179.1)
Total net liabilities		(68.4)	(68.3)
Equity			
Called up share capital	28	9.1	9.1
ESOP reserve	29	(3.4)	(3.9)
Other reserve	29	(280.1)	(280.1)
Hedging reserve	29	(1.4)	0.3
Retained earnings	29	207.4	206.3
Total equity		(68.4)	(68.3)

The financial statements were approved by the Board of Directors and authorised for issue on 22 October 2009 and were signed on its behalf by:

Mark Cashmore
Group Chief Executive

Alan Humphrey
Group Finance Director

Group Cash Flow Statement

For the year ended 31 August 2009

£m	Note	2009	2008
Net cash inflow from operating activities	26	31.9	28.7
Investing activities			
Interest received		0.1	0.1
Proceeds on disposal of freehold property		-	2.3
Acquisition of investment in joint venture		(1.0)	(2.1)
Acquisition of investment in Bertrams		(11.2)	-
Purchase of property, plant and equipment		(4.0)	(1.8)
Purchase of intangible assets		(1.2)	(2.0)
Net cash used in investing activities		(17.3)	(3.5)
Financing activities			
Interest paid		(4.2)	(3.6)
Dividend paid		(12.0)	(11.7)
Repayments of obligations under finance leases		(2.6)	(1.9)
Repayments of borrowings		(5.0)	(5.0)
Increase in bank overdrafts		10.1	-
Net cash used in financing activities		(13.7)	(22.2)
Net increase in cash and cash equivalents		0.9	3.0
Opening net cash and cash equivalents		3.4	0.4
Closing net cash and cash equivalents		4.3	3.4

Group Statement of Recognised Income and Expense

For the year ended 31 August 2009

£m	Note	2009	2008
Loss on cash flow hedges		(1.7)	(0.6)
Actuarial (loss) /gain on defined benefit pension scheme	4	(50.0)	45.9
Effect of asset limit on defined benefit pension scheme	4	43.1	(52.5)
UK deferred tax attributable to defined benefit pension scheme		(1.6)	(1.5)
UK current tax attributable to the additional defined benefit pension scheme contributions		3.4	3.5
Net expense recognised directly in equity		(6.8)	(5.2)
Profit for the year		17.7	26.5
Total recognised income and expense for the year		10.9	21.3

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

Notes to the Financial Statements

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Accounting policies

(a) Basis of preparation

The consolidated Group financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. These standards, subsequent amendments and related interpretations issued and adopted by the International Accounting Standards Board ('IASB') are those that have been endorsed by the European Union at the year end.

The consolidated Group financial statements have also been prepared in accordance with IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued and effective at the time of preparing these financial statements.

Smiths News PLC is a company incorporated in the United Kingdom under the Companies Act 2006.

In preparing the Group financial statements for the current year, the Group has adopted the following new IFRS, amendments to IFRS and IFRIC interpretations, which have not had a significant impact on the results or net assets of the Group:

IFRS 8

Operating Segments

This standard has been early adopted, see Note 2 for further details

IFRIC 12

Service Concession Arrangements

Effective for periods beginning on or after 1 January 2008

IFRIC 13

Customer Loyalty Programmes

Effective for periods beginning on or after 1 July 2008

IFRIC 14

IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Effective for periods beginning on or after 1 January 2008

At the date of authorisation of these consolidated Group financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

IFRIC 16

Hedges of a Net Investment in a Foreign Operation

Effective for periods beginning on or after 1 October 2008

IAS 1 (revised)

Presentation of Financial Statements

Effective for periods beginning on or after 1 January 2009

IAS 23 (revised)

Borrowing Costs

Effective for periods beginning on or after 1 January 2009

IFRS 1

Cost of an Investment in a Subsidiary and IAS 27

Jointly Controlled Entity or Associate

Effective for periods beginning on or after 1 January 2009

IFRIC 15

Arrangements for Construction of Real Estate

Effective for periods beginning on or after 1 January 2009

IFRS 3 (revised)

Business Combinations

and IAS 27 (revised)

Consolidated and Separate Financial Statements

Effective for periods beginning on or after 1 July 2009

IFRIC 17

Distributions of Non-cash Assets to Owners

Effective for periods beginning on or after 1 July 2009

IFRIC 18

Transfers of Assets from Customers

Effective for periods beginning on or after 1 July 2009

Notes to the Financial Statements

01

Accounting policies (continued)

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for:

– treatment of acquisition of subsidiaries when IFRS 3 comes into effect for business combinations for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 July 2009.

A summary of the Group's accounting policies is given below.

Accounting convention

The financial statements are drawn up on the historical cost basis of accounting except for the revaluation of certain financial instruments. The financial information is rounded to the nearest hundred thousand, except where otherwise indicated. The principal accounting policies, which have been applied consistently throughout both years, have been set out below.

The Group meets its day to day working capital requirements through its bank facilities of up to £110m, which do not expire until June 2011. The Group's forecasts, taking into account the board's future expectations of the Group's performance, indicate that there is substantial headroom within these bank facilities and the Group will continue to operate well within the covenants attaching to those facilities. These bank facilities together with renewed long term contracts with all major publishers in the year mean that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. The Group's cash generation and bank facilities allow it to meet all loan commitments as they fall due as well as managing the negative working capital position. The negative working capital and net liability positions at year end relate to the timing of monthly cash flows which are closely monitored and controlled by management.

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

Basis of consolidation

The consolidated Group financial statements incorporate the financial statements of Smiths News PLC, its subsidiaries and investments in joint ventures and associates up to the year end date.

Subsidiary undertakings are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights so to obtain benefits from its activities.

Results of subsidiary undertakings disposed of during the financial year are included in the financial statements up to the effective date of disposal. Where a business component representing a separate major line of business is disposed of, or classified as held for sale, it is classified as a discontinued operation.

All intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance

Notes to the Financial Statements

01

Accounting policies (continued)

with IFRS 5 Non Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(b) Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes. Sales of goods are recognised when goods are delivered and title has passed.

(c) Retirement benefit costs

Payments to Smiths News PLC's defined contribution pension scheme, The WH Smith Retirement Savings Plan, are recognised as an expense in the income statement as they fall due.

The cost of providing benefits for the defined benefit scheme, WH Smith Pension Trust, is determined by the Projected Unit Credit Method, with actuarial calculations being carried out at the balance sheet date.

Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement in the consolidated statement of recognised income and expense.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets.

The scheme is closed to further accrual, which would prevent the Group from realising the surplus through a funding holiday or a reduction in contributions. Given the Liability Driven Investment policy adopted by the Pension Trustees, the present value of

the economic benefits of the IAS 19 surplus in the pension scheme of £19.3m (2008: £62.4m) available on a reduction in future contributions is £nil (2008: £nil). As a result the Group has not recognised the IAS 19 surplus on the balance sheet.

(d) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value determined at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and a reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised directly in the income statement.

Rentals payable and receivable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

(e) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill, which is recognised as an asset is reviewed for impairment at least annually.

Notes to the Financial Statements

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Accounting policies (continued)

Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(f) Other Intangible assets

Intangible assets arising under a business acquisition (acquired intangible assets) are capitalised at fair value as determined at the date of acquisition and are stated at that fair value less accumulated amortisation (see below) and impairment losses (see below).

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of acquired intangibles from the date they are acquired. The estimated useful lives are as follows:

Customer relationships	2.5 to 10 years
Trade name	10 years
Software	5 years

The costs of acquiring and developing software that is not integral to the related hardware is capitalised separately as an intangible asset. These intangibles are stated

at cost less accumulated amortisation and impairment losses.

Assets held under finance leases are amortised over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

All intangible assets are reviewed for impairment in accordance with IAS 36 'Impairment of Assets', when there are indications that the carrying value may not be recoverable.

(g) Property, plant and equipment

Property, plant and equipment assets are carried at cost less accumulated depreciation and any recognised impairment in value. The carrying values of tangible fixed assets previously revalued have been retained at their book amount.

Depreciation is charged so as to write off the costs of assets, other than land, over their estimated useful lives, using the straight-line method, with the annual rates applicable to the principal categories being:

Freehold and long leasehold properties	over 20 years
Short leasehold properties	Shorter of the lease period and the estimated remaining economic life
Fixtures and fittings	10 years
Equipment	8 to 10 years
Computer equipment (disclosed within equipment in Note 13 to the financial statements)	up to 5 years
Vehicles	up to 5 years

Notes to the Financial Statements

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Accounting policies (continued)

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

All property, plant and equipment are reviewed for impairment in accordance with IAS 36 "Impairment of Assets", when there are indications that the carrying value may not be recoverable.

(h) Joint ventures and associates

A joint venture is an entity where the Group has joint control with one or more other venturers, under a contractual agreement, through participation in the financial and operating policy decisions of the investee.

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee.

The results, assets and liabilities of joint ventures and associates are incorporated in these financial statements using the equity method of accounting. Investments in joint ventures and associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the joint venture and associate, less any impairment in value. The carrying values of investments in joint ventures and associates include acquired goodwill.

Losses in a joint venture or associate in excess of the Group's interest in the joint venture or associate are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture or associate.

(i) Inventories

Inventories comprise goods held for resale and are stated at the lower of cost or net realisable value. Inventories are valued using a weighted average cost method. Cost comprises direct materials and, where applicable, direct labour costs and

those overheads that have been incurred in bringing the inventories to their present location and condition.

(j) Provisions

Provisions are recognised in the balance sheet when Smiths News PLC has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date. Where the effect is material, the provision is determined by discounting the expected future cash flows at the Group's weighted average cost of capital ("WACC"), risk adjusted by 2%.

(k) Taxation

The tax expense included in the income statement comprises current and deferred tax.

Current tax is the expected tax payable based on the taxable profit for the year, using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in business combination) of other assets and liabilities in a transaction that affects neither tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be

Notes to the Financial Statements

01

Accounting policies (continued)

available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(I) Financial instruments

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' ('FVTPL'), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

A financial asset other than a financial asset held for trading may be designated as FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the Group is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as FVTPL.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss

recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

Trade receivables

Trade receivables do not carry any interest and are stated at their fair value. They are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is evidence that the asset is impaired.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Bank borrowings

Interest bearing bank loans and overdrafts are initially measured at fair value (being proceeds received, net of direct issue costs), and are subsequently measured at amortised cost, using the effective interest rate method. Finance charges, including premiums payable on settlement or redemptions and direct issue costs are accounted for on an accruals basis and taken to the income statement using the effective interest rate method and are added to the carrying value of the instrument to the extent that they are not settled in the period in which they arise.

Notes to the Financial Statements

01

Accounting policies (continued)

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedge accounting

The Group uses certain derivative financial instruments to hedge interest rate exposures and to support underlying business requirements.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and any ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects the net income statement.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction

occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the net income or expense for the year.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(n) Share schemes

Smiths News Employee Benefit Trust

The shares held by the Smiths News Employee Benefit Trust are valued at the historical cost of the shares acquired. They are deducted in arriving at shareholders' funds and are presented as an other reserve in line with IAS 32 'Financial Instruments: Disclosure and Presentation'.

Share based payments

The company has applied IFRS 2 from 1 September 2004.

Employees of the Group receive part of their remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity settled transactions).

Equity settled share-based payments are measured at fair value at the date of grant. The fair value is calculated using an appropriate option pricing model. The fair value is expensed to the income statement on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Notes to the Financial Statements

(o) Critical accounting judgements and key sources of estimation uncertainty

Retirement benefit obligation

The Group recognises and discloses its retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Retirement Benefit Obligations'. The calculations include a number of judgements and estimations in respect of the expected rate of return on assets, the discount rate, inflation assumptions, the rate of increase in salaries and life expectancy, amongst others. Changes in these assumptions can have a significant effect on the value of the retirement benefit obligation.

In order to substantially reduce the volatility in the underlying investment performance and reduce the risk of a significant increase in the obligation, the Pension Trust Trustee has adopted a Liability Driven Investment policy. This is discussed in more detail in Note 4.

Use of non-GAAP measures

Smiths News PLC has identified certain measures that it believes provide additional useful information on the performance of the Group. This approach is comparable with that previously used, but as the measures are not defined under IFRS, they may not be directly comparable with other companies' adjusted measures. The non-GAAP measures are not intended to be a substitute for, or superior to, any IFRS measures of performance.

The following are the key non-GAAP measures identified by the Group:

Net debt

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

Underlying profit

Profit before non-recurring and other items as described below.

Non-recurring and other items

Non-recurring and other items are material items of income or expense that are disclosed separately due to their nature or amount. They are disclosed and described separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group.

Impairment of Goodwill and Intangibles

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was £4.1million. No impairment loss was recognised as the present value of the goodwill was greater than the carrying amount that was held on the balance sheet. Details of the value in use calculation are provided in Note 12.

Notes to the Financial Statements

02

Segmental analysis

Adoption of IFRS 8, Operating Segments

The Group has adopted IFRS 8 Operating Segments in advance of its effective date. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Board (the chief operating decision making forum) to allocate resources to the segments and assess their performance. Prior to the acquisition of Bertrams on 20 March 2009 the Group only had one reportable segment.

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

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

The following is an analysis of the Group's revenue and results by reportable segment in the year ended 31 August 2009:

Continuing operations						
	Newspaper & Magazine wholesaling		Book wholesaling		Consolidated	
£m	2009	2008	2009	2008	2009	2008
Revenue	1,272.5	1,240.6	53.5	-	1,326.0	1,240.6
Underlying profit before tax	30.0	32.5	0.5	-	30.5	32.5
Non-recurring and other items before tax	(11.7)	0.1	(0.4)	-	(12.1)	0.1
Profit before tax	18.3	32.6	0.1	-	18.4	32.6

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 1.

Notes to the Financial Statements

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Segmental analysis (continued)

Segment assets		
£m	2009	2008
Newspaper & Magazine wholesaling	140.2	110.8
Book wholesaling	50.6	-
Consolidated total assets	190.8	110.8

For the purposes of monitoring segment performance and allocating resources between segments, the Board monitor the tangible, intangible and financial assets attributable to each segment. Goodwill and acquired intangible assets have been allocated to the Book wholesaling segment.

Segment liabilities		
£m	2009	2008
Newspaper & Magazine wholesaling	(223.2)	(179.1)
Book wholesaling	(36.0)	-
Consolidated total assets	(259.2)	(179.1)

Other segment information				
£m	Depreciation and amortisation		Additions to non-current assets	
	2009	2008	2009	2008
Newspaper & Magazine wholesaling	(6.5)	(6.1)	8.7	4.9
Book wholesaling	(0.6)	-	13.3	-
Consolidated total	(7.1)	(6.1)	22.0	4.9

In addition to the depreciation and amortisation reported above, impairment losses of £0.7m (2008: £nil) relating to the reorganisation of The Returns Company were recognised in respect of property, plant and equipment. These impairment losses were attributable to the Newspaper and Magazine wholesaling segment.

The Group operates solely in the UK.

Notes to the Financial Statements

03

Operating profit

The Group's results are analysed as follows:

£m	2009			2008		
	Underlying	Non-recurring and other items	Total	Underlying	Non-recurring and other items	Total
Revenue	1,326.0	-	1,326.0	1,240.6	-	1,240.6
Cost of sales	(1,195.4)	-	(1,195.4)	(1,117.1)	-	(1,117.1)
Gross profit	130.6	-	130.6	123.5	-	123.5
Distribution costs	(64.4)	(2.2)	(66.6)	(59.2)	(1.3)	(60.5)
Administrative expenses	(33.8)	(8.6)	(42.4)	(28.3)	-	(28.3)
Profit on disposal of freehold property	-	-	-	-	1.4	1.4
Operating profit	32.4	(10.8)	21.6	36.0	0.1	36.1

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

£m	2009	2008
Cost of inventories recognised as an expense	1,136.8	1,065.8
Depreciation and amounts written off property, plant & equipment	5.3	4.8
Amortisation of intangible assets	1.8	1.3
Operating lease charges		
• land and buildings	11.7	5.3
• equipment and vehicles	2.2	2.1
Operating lease rental income - land and buildings	(0.5)	(0.4)
Staff costs (Note 5)	82.2	72.3

Notes to the Financial Statements

03

Operating profit
(continued)

The analysis of auditors' remuneration is as follows:

£m	2009	2008
Fees payable to the company's auditors and their associates for the audit of:		
• The company's annual accounts	-	-
• The audit of the company's subsidiaries pursuant to legislation	0.2	0.1
Total audit fees	0.2	0.1
Other services pursuant to legislation:		
• Tax services	0.2	-
• Corporate finance services	0.1	0.1
• Other services	0.1	-
Total non-audit fees	0.4	0.1

Included within tax services are one-off fees associated with the cross-currency contract.

Corporate finance services include the fees associated with the acquisition of Bertrams.

Included within other services is £63,000 relating to recruitment and remuneration services.

Notes to the Financial Statements

03

Operating profit
(continued)

Non-recurring and other items							2009	2008
£m	TRC Impairment	Cross- currency contract	Re- organisation costs	Reversionary leases	Amortisation of acquired intangibles	Total	Total	
Operating (loss)/ profit	(3.1)	(0.2)	(4.6)	(2.5)	(0.4)	(10.8)	0.1	
Finance costs / Investment revenues	-	(1.3)	-	-	-	(1.3)	-	
Non-recurring (loss)/ profit before tax	(3.1)	(1.5)	(4.6)	(2.5)	(0.4)	(12.1)	0.1	
Income tax credit	0.8	2.3	1.1	0.7	0.1	5.0	0.4	
Non-recurring (loss)/profit after tax	(2.3)	0.8	(3.5)	(1.8)	(0.3)	(7.1)	0.5	

The Returns Company ('TRC') Impairment

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

Cross-currency contract

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

Notes to the Financial Statements

03

Operating profit
(continued)

Reorganisation costs

Reorganisation costs of £4.6m have been recognised this year following contract changes. These relate to redundancy and legal costs resulting from the contract gains and an onerous lease provision relating to locations where publisher contracts have been lost.

Reversionary leases

Under the terms of the 2006 Demerger Agreement with WH Smith PLC, the Group has a contingent liability for 35% of the former WH Smith Group potential reversionary leases, capped at a maximum of £5m in any twelve month period. During the year a number of leases have reverted, or could now revert back and thus a provision of £2.5m has been made to cover this liability.

Amortisation of acquired intangibles

Intangible assets relating to the acquisition of Bertrams will be amortised over their expected economic lives. The charge to the income statement for the 5 months to 31 August 2009 is £0.4m for which there is no associated cash impact.

The cash impact of the non-recurring costs noted above is £1.2m in the year with an estimated cash spend of £2.3m in 2010, the balance being spread across later years.

Non-recurring costs for 2008 consist of profit on disposal of freehold properties of £1.4m offsetting costs relating to the reorganisation of the East Midlands and South Wales businesses of £1.3m.

Notes to the Financial Statements

04 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 in Note 4 (a). 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	2009	2008
Present value of the obligation	(338.1)	(320.1)
Fair value of plan assets	357.4	382.5
Surplus	19.3	62.4
Amounts not recognised due to asset limit	(19.3)	(62.4)
Retirement benefit obligation recognised in the balance sheet	-	-

The scheme is closed to further accrual, which would prevent the Group from realising the surplus through a funding holiday or a reduction in contributions. Given the Liability Driven Investment policy adopted by the Pension Trustees, the present value of the economic benefits of the IAS 19 surplus in the pension scheme of £19.3m (2008: £62.4m) available on a reduction in future contributions is £nil (2008: £nil). As a result the Group has not recognised the IAS 19 surplus on the balance sheet.

(a) Defined benefit pension scheme

The Pension Trust

The Group has paid £5.4m to the Pension Trust over the course of the year in relation to the agreed pension deficit funding.

In the year ended 31 August 2007 the Pension Trust closed to future service accrual.

Following completion of the recent triennial valuation the scheme had an actuarial deficit of £50m as at 31 March 2009. A revised deficit funding schedule of £5.8m per annum has been agreed for the next ten years with the trustees.

This deficit continues to be managed through the Liability Driven Investment ('LDI') policy, which minimises volatility through the hedging of interest and inflation.

The assets are invested such that they are expected to alter in value in line with changes in the pension liability caused by changes in interest and inflation.

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 options. These represent a notional exposure to underlying equities of some £175m.

Notes to the Financial Statements

04

Retirement benefit obligation (continued)

(a) Defined benefit pension scheme (continued)

The valuation of the defined benefit pension scheme used for the account disclosures are based upon the most recent valuation. Scheme assets are stated at their market value at the relevant reporting date.

The principal long-term assumptions used to calculate scheme liabilities under IAS 19 are:

%	2009	2008
Rate of increase in salaries	-	-
Rate of increase in pension payments and deferred pensions	3.28	4.07
Discount rate	5.32	6.34
Inflation assumptions	3.28	4.07

The amounts recognised in the income statement were as follows:

£m	2009	2008
Current service cost	(0.1)	(0.1)
Interest cost	(19.9)	(17.4)
Expected return on scheme assets	21.0	18.1
	1.0	0.6

The charge for the current service cost has been included within administrative expenses. Interest cost and expected return on scheme assets have been included within investment revenues.

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

£m	2009	2008
At 1 September	(320.1)	(311.3)
Current service cost	(0.1)	(0.1)
Interest cost	(19.9)	(17.4)
Actuarial losses	(10.4)	(2.7)
Benefits paid	12.4	11.4
At 31 August	(338.1)	(320.1)

Notes to the Financial Statements

04
**Retirement
 benefit obligation**
 (continued)

(a) Defined benefit pension scheme (continued)

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

£m	2009	2008
At 1 September	382.5	321.2
Expected return on scheme assets	21.0	18.1
Net actuarial (losses)/ gains	(39.6)	48.6
Contributions	5.9	6.0
Benefits paid	(12.4)	(11.4)
At 31 August	357.4	382.5

An analysis of the defined benefit scheme assets at the balance sheet date is detailed below:

£m	2009	2008
Liquid cash funds	350.6	318.6
Inflation swaps	(13.6)	51.0
Equity call options	20.4	12.9
	357.4	382.5

The actual return on plan assets was a loss of £18.6m (2008: a gain of £66.7m).

The expected rate of return on these investments, calculated as a weighted average of the expected return on the LDI fund and the equity call options, was 5.26% at 31 August 2009 (5.55% at 31 August 2008).

The mortality assumptions (in years) underlying the value of the accrued liabilities are:

	Male	Female
Life expectancy at age 65		
Member currently aged 65	21.3	23.2
Member currently aged 45	23.2	25.0
Life expectancy at age 60		
Member currently aged 60	26.0	27.9
Member currently aged 45	27.5	29.4

The mortality assumptions are based on the SAPS mortality tables (as published by the Institute of Actuaries). The mortality rates underlying the table have been decreased by 5% to reflect the Trust's actual experience. A long term mortality improvement assumption of 1% has been included as an overlay to these tables, together with 80% of long cohort for men and 60% of long cohort for women.

Notes to the Financial Statements

04

**Retirement
benefit obligation**
(continued)

(a) Defined benefit pension scheme (continued)

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 0.5%	Decrease/increase by £24.5m
Rate of inflation	Increase/decrease by 0.5%	Increase/decrease by £32.5m
Rate of mortality	Increase by 1 year	Increase by £11m

No sensitivity has been undertaken for the rate of salary growth as the scheme is closed to further service accrual.

The sensitivity of the present value of the scheme liabilities to changes in the discount rate and rate of inflation are effectively hedged through the Liability Driven Investment policy.

The history of experience adjustments is as follows:

£m	2009	2008	2007	2006	2005
Present value of defined benefit obligation	(338.1)	(320.1)	(311.3)	(334.0)	(967.6)
Fair value of scheme assets	357.4	382.5	321.2	285.0	871.5
Amounts not recognised due to asset limit	(19.3)	(62.4)	(9.9)	-	-
Deficit in the scheme	-	-	-	(49.0)	(96.1)
Experience adjustments on scheme liabilities					
Amount (£m)	12.5	3.6	21.9	(16.6)	(114.7)
Percentage of scheme liabilities	4%	1%	7%	(5%)	(12%)
Experience adjustments on scheme assets					
Amount (£m)	(39.6)	48.6	1.6	(16.2)	70.8
Percentage of scheme assets	(11%)	13%	1%	(6%)	8%

The cumulative amount of actuarial gains and losses recognised in the statement of recognised income and expense since the adoption of IFRS is a loss of £13.4m (2008: a gain of £36.6m).

(b) Defined contribution pension scheme

The pension cost charged to income for the defined contribution scheme, WH Smith Retirement Savings Plan, amounted to £1.6m for the year ended 31 August 2009 (2008: £1.4m).

Notes to the Financial Statements

05

Staff costs and employees

(a) Staff costs

The aggregate remuneration of employees was:

£m	2009	2008
Wages and salaries	74.1	65.5
Social security	5.4	4.8
Pension costs	1.7	1.5
Employee share schemes	1.0	0.5
Total	82.2	72.3

Charges and credits for pension scheme financing and actuarial gains and losses arising on the pension scheme are not disclosed in the table above.

(b) Employee numbers

The average total monthly number of employees (including executive directors) was:

Number	2009	2008
Operations	3,840	3,653
Support functions	489	414
Total	4,329	4,067

06

Operating lease commitments

The group as lessee:

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

£m	2009			2008		
	Land & buildings	Equipment & vehicles	Total	Land & buildings	Equipment & vehicles	Total
Within one year	8.7	1.3	10.0	6.1	1.4	7.5
In the second to fifth years inclusive	28.9	0.7	29.6	18.9	1.6	20.5
In more than five years	24.7	-	24.7	18.5	-	18.5
	62.3	2.0	64.3	43.5	3.0	46.5

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.

Notes to the Financial Statements

06

Operating lease commitments (continued)

The group as lessor:

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

£m	2009	2008
Within one year	0.3	0.5
In the second to fifth years inclusive	0.9	1.3
In more than five years	-	0.5
	1.2	2.3

07

Investment revenues

£m	2009	2008
Interest on bank deposits	0.1	0.1
Net income on pension scheme (Note 4)	1.1	0.7
Underlying investment revenues	1.2	0.8
Non-recurring item – interest income	1.4	-
Investment revenues	2.6	0.8

The non-recurring item relates to the gain arising from the interest rate differential on the cross-currency contract.

08

Finance costs

£m	2009	2008
Interest on bank overdrafts and loans	2.8	3.9
Net change in fair value of derivative liabilities designated as fair value through profit and loss	0.1	0.1
Hedge ineffectiveness on the cash flow hedge	-	0.1
Interest payable on finance leases	0.2	0.2
Underlying finance costs	3.1	4.3
Non-recurring item - foreign exchange loss on cross-currency contract	2.7	-
Finance costs	5.8	4.3

The non-recurring item relates to the foreign exchange loss incurred on closing out the cross-currency contract on 25 February 2009.

Notes to the Financial Statements

09

Income tax expense

£m	2009			2008		
	Underlying	Non-recurring and other items	Total	Underlying	Non-recurring and other items	Total
Current tax	9.5	-	9.5	9.6	-	9.6
Current tax – non-recurring items	-	(5.0)	(5.0)	-	(0.4)	(0.4)
Adjustment in respect of prior year UK corporation tax	(2.4)	-	(2.4)	(4.5)	-	(4.5)
Total current tax charge	7.1	(5.0)	2.1	5.1	(0.4)	4.7
Deferred tax - current year	(0.6)	-	(0.6)	1.2	-	1.2
Deferred tax - prior year	(0.8)	-	(0.8)	0.2	-	0.2
Total tax on profit	5.7	(5.0)	0.7	6.5	(0.4)	6.1
<i>Effective tax rate</i>	<i>19%</i>		<i>4%</i>	<i>20%</i>		<i>19%</i>

The underlying income tax rate for the year is 19%, which represents the UK corporation tax rate of 28%, adjusted for tax credits relating to prior years of £3.2m (2008: £4.3m). The tax relief relating to non-recurring and other items of £5.0m (2008: £0.4m) reduces the effective income tax rate to 4% (2008: 19%).

Tax on non-recurring items for the year ended 31 August 2009 represents the UK corporation tax rate of 28% with the exception of a £2.3m tax credit relating to the cross-currency contract (see Note 3).

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

It is expected that the effective tax rate will trend back to the standard rate of UK corporation tax over the next two years.

Reconciliation of the tax charge

£m	2009	2008
Profit before tax	18.4	32.6
Tax on profit at the standard rate of UK corporation tax 28% (2008: 29%)	5.2	9.5
Permanent differences	(1.0)	0.1
Share schemes	(0.3)	1.2
Capital profits offset by capital losses	-	(0.4)
Adjustment in respect of prior year UK deferred tax	(0.8)	0.2
Adjustment in respect of prior year UK corporation tax	(2.4)	(4.5)
Total tax charge	0.7	6.1

In addition to the amount charged to the income statement, deferred tax relating to the defined benefit pension scheme amounting to £1.6m (2008: £1.5m) has been recognised directly in equity (see Note 20).

Notes to the Financial Statements

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Dividends

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

£m	2009	2008
Final dividend for the year ended 31 August 2008 of 4.5p (2007: 4.3p) per share	8.0	7.7
Interim dividend for the year ended 31 August 2009 of 2.2p (2008: 2.2p) per share	4.0	4.0
	12.0	11.7

The proposed final dividend for the year ended 31 August 2009 of 4.6p is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The proposed dividend, if approved, will be paid on 5 February 2010 to shareholders on the register at close of business on 8 January 2010.

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Earnings per share

	2009	2008
	£m	£m
Profit for the financial year	17.7	26.5
Non-recurring items	7.1	(0.5)
Underlying profit for the financial year	24.8	26.0
	Number m	Number m
Weighted average number of shares in issue	182.9	182.9
Shares held by ESOP (weighted)	(3.4)	(3.6)
Weighted average number of shares in issue for basic earnings per share	179.5	179.3
Shares issuable (weighted)	0.1	1.0
Weighted average number of shares in issue for diluted earnings per share	179.6	180.3
	Pence	Pence
Earnings per share:		
Basic	9.9	14.8
Diluted	9.9	14.7
Underlying earnings per share:		
Basic	13.8	14.5
Diluted	13.8	14.4

Notes to the Financial Statements

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Intangible assets

£m	Goodwill	Acquired intangibles	Development costs	Computer software costs	Total
Cost:					
At 1 September 2008	-	-	-	22.2	22.2
Additions	-	-	0.6	0.6	1.2
Inter segment transfer	-	-	1.1	(1.1)	-
Acquisition	4.1	5.1	-	-	9.2
At 31 August 2009	4.1	5.1	1.7	21.7	32.6
Accumulated amortisation:					
At 1 September 2008	-	-	-	18.1	18.1
Inter segment transfer	-	-	0.2	(0.2)	-
Amortisation charge	-	0.4	0.3	1.1	1.8
At 31 August 2009	-	0.4	0.5	19.0	19.9
Net book value at 31 August 2009	4.1	4.7	1.2	2.7	12.7
Cost:					
At 1 September 2007	-	-	-	20.2	20.2
Additions	-	-	-	2.0	2.0
At 31 August 2008	-	-	-	22.2	22.2
Accumulated amortisation:					
At 1 September 2007	-	-	-	16.8	16.8
Amortisation charge	-	-	-	1.3	1.3
At 31 August 2008	-	-	-	18.1	18.1
Net book value at 31 August 2008	-	-	-	4.1	4.1

The goodwill of £4.1m and acquired intangibles of £5.1m arise from the acquisition of the business and assets of Bertrams on 20 March 2009 and have been allocated to the Book wholesaling segment. Goodwill is allocated to the Group's cash generating units which are the same as the segments presented in Note 2. The acquired intangibles consist of customer relationships of £3.3m, a trade name of £1.3m and software of £0.5m resulting from the acquisition.

The recoverable amounts of the cash generating units are determined from the value in use calculations. The Group prepares cash flow forecasts derived from the most recent budgets and forecasts approved by the Board and extrapolates these cash flows on an estimated growth rate of 1%.

The rate used to discount the forecast cash flows from the Book wholesaling segment was 11%, being the Group's pre-tax WACC, risk adjusted by 2%. The calculation of value in use is most sensitive to the discount rate and growth rates used. Management believes that no reasonable potential change in any of the above key assumptions would cause the carrying value to exceed its recoverable amount.

Capitalised software comprises costs that are not deemed to be an integral part of the related hardware, which is classified within property, plant and equipment.

Notes to the Financial Statements

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Property, plant and equipment

£m	Land & Buildings			Fixtures & fittings	Equipment & vehicles	Total
	Freehold properties	Long term leasehold	Short term leasehold			
Cost or valuation:						
At 1 September 2008	-	0.5	12.5	5.1	27.9	46.0
Additions	-	-	0.6	0.4	6.5	7.5
Acquisition of subsidiary	0.9	-	1.2	2.0	-	4.1
Disposals	-	-	(0.1)	(0.1)	-	(0.2)
At 31 August 2009	0.9	0.5	14.2	7.4	34.4	57.4
Accumulated depreciation:						
At 1 September 2008	-	-	8.4	2.9	19.2	30.5
Impairment loss	-	-	0.1	0.1	0.5	0.7
Depreciation charge	-	0.1	0.6	0.6	4.0	5.3
Disposals	-	-	(0.1)	(0.1)	-	(0.2)
At 31 August 2009	-	0.1	9.0	3.5	23.7	36.3
Net book value at 31 August 2009	0.9	0.4	5.2	3.9	10.7	21.1
Cost or valuation:						
At 1 September 2007	1.4	0.5	11.8	5.2	25.8	44.7
Additions	-	-	0.4	0.1	2.4	2.9
Inter segment transfer	(0.3)	-	0.3	-	-	-
Disposals	(1.1)	-	-	(0.2)	(0.3)	(1.6)
At 31 August 2008	-	0.5	12.5	5.1	27.9	46.0
Accumulated depreciation:						
At 1 September 2007	0.5	-	7.5	2.7	15.8	26.5
Depreciation charge	-	-	0.7	0.4	3.7	4.8
Inter segment transfer	(0.2)	-	0.2	-	-	-
Disposals	(0.3)	-	-	(0.2)	(0.3)	(0.8)
At 31 August 2008	-	-	8.4	2.9	19.2	30.5
Net book value at 31 August 2008	-	0.5	4.1	2.2	8.7	15.5

The Group leases plant and equipment under a number of finance lease arrangements and has the option to purchase the equipment at the end of each lease. The net book value of finance leases contained within these balances is £4.4m at 31 August 2009 (2008: £2.8m).

The impairment loss relates to the assets of The Returns Company, see Note 3 for further details.

Notes to the Financial Statements

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Investment in joint venture and associate

The Group's share of the results, assets and liabilities of joint ventures and associates:

£m	2009			2008		
	Joint venture	Associate	Total	Joint venture	Associate	Total
Non-current assets	0.3	0.1	0.4	0.3	0.1	0.4
Current assets	0.6	0.5	1.1	0.6	0.4	1.0
Total assets	0.9	0.6	1.5	0.9	0.5	1.4
Current liabilities	(0.3)	(0.4)	(0.7)	(0.5)	(0.3)	(0.8)
Non-current liabilities	(0.2)	-	(0.2)	(0.2)	-	(0.2)
Total liabilities	(0.5)	(0.4)	(0.9)	(0.7)	(0.3)	(1.0)
Goodwill	2.9	-	2.9	2.9	-	2.9
Share of net assets	3.3	0.2	3.5	3.1	0.2	3.3
Revenue	2.3	2.5	4.8	0.9	2.6	3.5
Profit after tax	0.1	0.1	0.2	-	-	-

The Group has a 30% interest in the ordinary shares of Worldwide Magazine Distribution Limited, a company incorporated in England and Wales. The accounts of the associate are drawn up to 31 August 2009 for inclusion in the consolidated financial statements. The latest statutory financial statements of the associate were drawn up to 30 April 2009.

On 20 March 2008 the Group purchased a 50% interest in the ordinary shares of Rascal Solutions Limited, a company incorporated in England and Wales, for £3.1m (of which £1.0m was deferred until 30 October 2008). The latest statutory financial statements of the joint venture were drawn up to 31 August 2009.

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Other financial assets

Trade and other receivables		
£m	2009	2008
Trade receivables	101.5	50.1
Allowance for doubtful debts	(0.6)	(0.1)
	100.9	50.0
Other debtors	10.0	6.3
Prepayments and accrued income	3.9	4.2
	114.8	60.5

Trade receivables

Total trade receivables net of allowances for doubtful debts held by the company at 31 August 2009 amounted to £100.9m (2008: £50.0m), comprising the amounts presented above. Trade receivables have increased significantly across the year as a result of the acquisition of the business and assets of Bertrams and the new contract gains.

The average credit period taken on sales of goods is 21 days (2008: 21 days). Trade receivables are generally non-interest bearing. The Group has provided fully for all receivables over 90 days for independent customers as historical experience is such that receivables past due beyond 90 days are generally not recoverable. For larger multiple customers the Group provides for receivables on an individual customer basis based on circumstances known at that time and the likelihood of recovery.

Of the trade receivables balance at the end of the year, 5 customers had individual balances that represented more than 5% of the total trade receivables balance. The total of these was £39.2m (2008: £24.8m). The directors believe that there is no further credit provision required due to the concentration of credit risk in excess of the allowance for doubtful debts.

Included in the outstanding trade receivables balance are debtors with an overdue amount of £0.3m (2008: £0.2m) that the company has not provided for as these amounts are still considered recoverable and fall outside our pre-determined policy.

Ageing of past due but not impaired receivables:

£m	2009	2008
30-60 days	0.2	0.1
60-90 days	0.1	0.1
	0.3	0.2

The Group does not have any individual customers whose sales in the year represent more than 10% of the Group revenue.

Notes to the Financial Statements

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Other financial assets (continued)

Movement in the allowance for doubtful debts:

£m	2009	2008
At 1 September	0.1	0.1
Impairment losses recognised	0.4	0.2
Acquisition of subsidiary	0.5	-
Amounts written off as uncollectible	(0.3)	(0.2)
Amounts recovered during the year	(0.1)	-
At 31 August	0.6	0.1

Ageing of past due and impaired trade receivables:

£m	2009	2008
30-60 days	0.1	-
60-90 days	0.3	-
90-120 days	0.2	0.1
	0.6	0.1

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

Cash and cash equivalents

£m	2009	2008
Cash and cash equivalents	4.3	3.4

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

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Trade and other payables

£m	2009	2008
Trade payables	166.1	91.5
Other tax and social security	2.7	1.4
Other creditors	12.1	10.3
Accruals and deferred income	10.7	9.9
	191.6	113.1

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 34 days (2008: 30 days). No interest is charged on trade payables. The directors consider that the carrying amount of trade and other payables approximates to their fair value.

Trade payables have increased significantly across the year as a result of the acquisition of the business and assets of Bertrams and the new contract gains.

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Other non-current liabilities

£m	2009	2008
Other creditors	0.7	0.4

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Obligations under finance leases

£m	2009		2008	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Amount payable under finance leases:				
Within one year	1.7	1.5	1.6	1.5
In the second to fifth years inclusive	3.2	2.9	1.3	1.2
Total	4.9	4.4	2.9	2.7
Less: future finance charges	(0.5)	-	(0.2)	-
Present value of lease obligations	4.4	4.4	2.7	2.7
Less: Amount due for settlement within 12 months (shown under current liabilities)	(1.5)	(1.5)	(1.4)	(1.4)
Amount due for settlement after 12 months	2.9	2.9	1.3	1.3

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is 3-4 years. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The fair value of the Group's lease obligations approximates their carrying amount.

Notes to the Financial Statements

19 Provisions

£m	Reorganisation provisions	Property provision	Total
Gross provision:			
At 1 September 2008	-	0.8	0.8
Additions	4.3	6.3	10.6
Utilised in year	(0.2)	(0.5)	(0.7)
At 31 August 2009	4.1	6.6	10.7
Discount:			
At 1 September 2008	-	(0.1)	(0.1)
Additions	-	(2.2)	(2.2)
Unwinding of discount utilisation	-	-	-
At 31 August 2009	-	(2.3)	(2.3)
Net book value at 31 August 2009	4.1	4.3	8.4
Gross provision:			
At 1 September 2007	-	0.6	0.6
Additions	-	0.4	0.4
Utilised in year	-	(0.2)	(0.2)
At 31 August 2008	-	0.8	0.8
Discount:			
At 1 September 2007	-	(0.1)	(0.1)
Unwinding of discount utilisation	-	-	-
At 31 August 2008	-	(0.1)	(0.1)
Net book value at 31 August 2008	-	0.7	0.7

£m	2009	2008
Included within current liabilities	3.8	-
Included within non-current liabilities	4.6	0.7
Total	8.4	0.7

The property provision represents the estimated future cost of the Group's onerous leases in non-trading properties based on known and estimated rental sub-leases. This provision has been discounted at 11% (being the Group's pre-tax WACC, risk adjusted by 2%), 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.

The reorganisation provisions relate to the costs following the take on of new business and the impairment of The Returns Company. The provision is expected to be utilised over the next 3 years.

Notes to the Financial Statements

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Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting periods.

£m	Accelerated tax depreciation	Lease incentives	Share based payments	Retirement benefit obligations	Total
At 1 September 2008	(1.7)	-	0.1	3.1	1.5
Charge to income	1.0	-	0.4	-	1.4
Charge to equity	-	-	-	(1.6)	(1.6)
At 31 August 2009	(0.7)	-	0.5	1.5	1.3
At 1 September 2007	(1.6)	0.1	1.3	4.6	4.4
Charge to income	(0.1)	(0.1)	(1.2)	-	(1.4)
Charge to equity	-	-	-	(1.5)	(1.5)
At 31 August 2008	(1.7)	-	0.1	3.1	1.5

The Company has capital losses carried forward of £21.7m (2008: £51.7m). During the year the Group carried out a reorganisation of investments of the parent company, which resulted in the crystallisation of a capital gain of £30m.

Certain deferred tax assets and liabilities have been offset in the table above. The following is an analysis of the deferred tax balances, after offset, for financial reporting purposes.

£m	2009	2008
Deferred tax assets	3.3	11.6
Deferred tax liabilities	(2.0)	(10.1)
	1.3	1.5

Notes to the Financial Statements

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Borrowings

£m	2009	2008
Term loan	39.3	44.7
Revolving credit facility	9.5	-
Overdraft	0.6	-
Total borrowings	49.4	44.7
Total borrowings		
Amount due for settlement within 12 months	15.1	5.0
Amount due for settlement after 12 months	34.3	39.7
	49.4	44.7

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

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

The Group has committed bank facilities in place of £90m, plus a further committed asset backed facility of up to £20m.

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

There is an interest rate hedge in place until June 2011 at an all in effective rate of 5.78%, which at 31 August 2009 covered 62% of the term loan.

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

%	2009	2008
Term loan	5.4	6.8
Revolving credit facility	2.3	6.1

Undrawn borrowing facilities

At 31 August 2009, the Group had available £54.6m (2008: £50.0m) of undrawn committed borrowing facilities.

Notes to the Financial Statements

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Derivative financial instruments

£m	Current		Non-current	
	2009	2008	2009	2008
Derivatives that are designated and effective as hedging instruments carried at fair value:				
Interest rate swaps	-	-	(1.3)	0.2
Derivatives that are designated and carried at fair value through profit and loss (FVTPL):				
Basis interest rate swap	(0.2)	(0.6)	-	-
	(0.2)	(0.6)	(1.3)	0.2

Further details of derivative financial instruments are provided in Note 23.

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Financial Instruments

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 21, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Note 29.

The Group is not subject to externally imposed capital requirements.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

Categories of financial instruments

£m	2009	2008
Financial assets		
Derivative instruments in designated hedge accounting relationships	-	0.2
Cash and cash equivalents	4.3	3.4
Financial liabilities		
Derivative instruments in designated hedge accounting relationships	1.3	-
Designated as fair value through the profit and loss	0.2	0.6
Borrowings	49.4	44.7
Finance leases	4.4	2.7

Notes to the Financial Statements

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Financial Instruments (continued)

Market risk

Interest rate management

The Group regularly monitors its exposure to interest rate risk and considers from time to time whether there would be a benefit in further hedging this risk. The Group avoids the use of derivatives or other financial instruments in circumstances when the outcome would effectively be largely dependent upon speculation on future rate movements. The Group uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the balance sheet date. For floating rate liabilities the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year.

If interest rates had been 0.5% higher/lower and all other variables were held constant, the Group's profit for the year ended 31 August 2009 would decrease/increase by £0.2m (2008: £0.1m).

Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is based on the market values of equivalent instruments at the balance sheet date, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at the reporting date:

	Average contract fixed interest rate		Notional principal amount		Fair value	
	2009	2008	2009	2008	2009	2008
Outstanding receive floating pay fixed contracts						
2 to 5 years	5.13%	5.13%	£24.8m	£33.8m	(£1.3m)	£0.2m

The interest rate swaps settle on a semi-annual basis. The floating rate on the interest rate swaps is 6 months LIBOR. The Group will settle the difference between fixed and floating interest rates on a net basis. All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount deferred in equity is recognised in the income statement over the period that the floating rate interest payments on debt impact the income statement.

During the year the Group has also entered into a basis interest rate swap, which expires in less than one year. The notional principal amount is £24.8m and the fair value at the balance sheet date is (£0.2m).

Notes to the Financial Statements

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Financial Instruments (continued)

Credit risk

The Group considers its exposure to credit risk at 31 August to be as follows:

£m	2009	2008
Bank deposits	4.3	3.4
Derivative financial instruments	-	0.2
Trade receivables	100.9	50.0
	105.2	53.6

The Group's policy is to transact derivatives only with counterparties whose long-term credit is rated at least A1 by Moody's. Further detail on the Group's policy relating to trade receivables can be found in Note 15 to the financial statements.

The increase in credit risk in the year is due to the take on of new contracts and the acquisition of the business and assets of Bertrams.

Investment Risk Management

The Group's pension scheme, the WH Smith Pension Trust, has significant assets valued at £357.4m as at 31 August 2009. An Investment Committee of the Trustees to the Scheme meets regularly to review the performance of the asset managers and the scheme as a whole. The Company is represented on this Committee. In adopting the LDI structure in 2005 a number of inflation and interest rate hedges and option agreements were entered into, with collateral posted daily to or from the scheme to the relevant counterparty. The risk of failure of counterparties to these instruments and of the investment manager is monitored regularly by the Committee; as such failure could expose the scheme to loss.

Liquidity risk

The Group manages liquidity risk by maintaining adequate reserves and banking facilities and by monitoring forecast and actual cash flows. Included in Note 21 is a description of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk. As the Group is cash generative its liquidity risk is considered low. The Group's cash generation allows it to meet all loan commitments as they fall due as well as sustain a negative working capital position.

The Group invests significant resources in the forecasting and management of its cash flows. This is critical given a routine cash cycle that results in significant predictable swings within each month of around £50m.

The following is an analysis of the undiscounted contractual cash flows payable under financial liabilities and derivatives. The undiscounted cash flows will differ from both the carrying value and fair value. Floating rate interest is estimated using the prevailing rate at the balance sheet date.

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Financial Instruments (continued)

£m	Due between 1 year	Due between 1 and 2 years	Due between 2 and 3 years	Due between 3 and 4
At 31 August 2009				
Non derivative financial liabilities				
Bank and other borrowings	(15.1)	(35.0)	-	-
Interest payments on borrowings	(2.9)	(2.6)	-	-
Finance leases	(1.7)	(1.8)	(0.8)	(0.6)
Derivative and other financial liabilities				
Net settled derivative contracts - receipts	0.3	0.3	-	-
Net settled derivative contracts - payments	(1.2)	(0.9)	-	-
Total	(20.6)	(40.0)	(0.8)	(0.6)
At 31 August 2008				
Non derivative financial liabilities				
Bank and other borrowings	(5.0)	(5.0)	(35.0)	-
Interest payments on borrowings	(2.7)	(2.4)	(1.7)	-
Finance leases	(1.6)	(0.8)	(0.4)	(0.1)
Derivative and other financial liabilities				
Net settled derivative contracts - receipts	2.0	1.4	0.7	-
Net settled derivative contracts - payments	(1.6)	(1.2)	(0.6)	-
Total	(8.9)	(8.0)	(37.0)	(0.1)

Notes to the Financial Statements

24 Acquisition of Bertrams

On 20 March 2009 the Group acquired the business and assets of Bertrams. The cost of the acquisition was £1.9m plus repayment of the £6.7m of existing bank debt of the business and directly attributable acquisition costs of £1.6m.

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

£m	Book value of identifiable assets acquired and liabilities assumed	Book value of identifiable assets acquired and liabilities assumed	Provisional fair value of identifiable assets acquired and liabilities assumed
Intangible assets	-	5.1	5.1
Property, plant and equipment	5.8	(1.7)	4.1
Deferred tax assets	-	1.3	1.3
Inventories	8.4	(0.4)	8.0
Trade and other receivables	12.6	-	12.6
Cash and cash equivalents	(0.5)	-	(0.5)
Trade and other payables	(21.9)	(0.6)	(22.5)
Bank loans and other borrowings	(6.7)	-	(6.7)
Obligations under finance leases	(0.7)	-	(0.7)
Deferred tax liability	-	(1.3)	(1.3)
Net identifiable assets and liabilities	(3.0)	2.4	(0.6)
Directly attributable acquisition costs	(1.6)	-	(1.6)
Cash transferred as consideration	(1.9)	-	(1.9)
Provisional estimate of goodwill	6.5	(2.4)	4.1

The goodwill arising on the acquisition of the business and assets of Bertrams reflects the strategic importance of broadening the activities of the Group, in addition to the value of the management and workforce.

Bertrams contributed £53.5m to revenue and £0.5m to profit before tax for the period between the 20 March 2009 and the balance sheet date.

If the acquisition of the business and assets of Bertrams had been completed on the first day of the financial year, Group revenues for the period would have been £135.1m higher and Group profit attributable to equity holders of the parent would have decreased by £3.5m. This loss largely relates to one off costs caused by the previous parent company of Bertrams, Woolworths plc, going into administration in the year.

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.

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Contingent liabilities and capital commitments

£m	2009	2008
Bank and other loans guaranteed	3.1	2.2

Other potential liabilities that could crystallise are in respect of previous assignments of leases where the liability could revert to the Group if the lessee defaulted. Pursuant to the terms of the Demerger Agreement, any such contingent liability, which becomes an actual liability, will be apportioned between Smiths News PLC and WH Smith PLC in the ratio 35:65 (provided that the actual liability of Smiths News PLC in any 12 month period does not exceed £5m). The company's share of these leases has an estimated future cumulative gross rental commitment at 31 August 2009 of £26.6m (2008: £34.4m). This excludes the reversionary lease provision included within non-recurring items, see Note 3.

Contracts placed for future capital expenditure approved by the directors but not provided for amount to £1.1m (2008: £0.4m).

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Net cash inflow from operating activities

£m	2009	2008
Operating profit	21.6	36.1
Adjustment for pension funding	(5.7)	(5.9)
Depreciation of property, plant and equipment	5.3	4.8
Profit on sale of property, plant and equipment	-	(1.4)
Amortisation of intangible assets	1.8	1.3
Share based payments	1.0	0.6
Increase in inventories	(10.9)	(0.3)
Increase in receivables	(41.7)	(7.5)
Increase in payables	57.2	4.0
Income tax paid	(4.3)	(3.2)
Increase in provisions	7.6	0.2
Net cash inflow from operating activities	31.9	28.7

Notes to the Financial Statements

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Share-based payments

Details of the share schemes operated by the Group are provided in the Remuneration Report on pages 51 to 63. The Group recognised total expenses of £1.0m in 2009 (2008: £0.5m) related to equity-settled share-based payment transactions.

Sharesave Scheme

Under the terms of the Smiths News Sharesave Scheme, the Board may grant options to purchase ordinary shares in the Company to eligible employees who enter into an Inland Revenue approved Save-As-You-Earn ('SAYE') savings contract for a term of three or five years. Options are granted at a 20% discount to the market price of the shares on the day preceding the date of offer and are normally exercisable for a period of six months after completion of the SAYE contract.

	2009		2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of the period	1,944,417	93.3p	1,439,751	100.8p
Granted	1,173,638	79.2p	943,489	85.0p
Exercised	(329)	85.0p	-	-
Forfeited	(372,429)	93.6p	(438,823)	100.2p
Outstanding at the end of the period	2,745,297	87.2p	1,944,417	93.3p
Exercisable at the end of the period	-	-	-	-

Notes to the Financial Statements

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Share-based payments (continued)

Outstanding options granted under the Sharesave Scheme as at 31 August 2009 are as follows:

Date of grant	2009			2008		
	Number of options	Weighted average exercise price	Weighted average remaining contractual life (year)	Number of options	Weighted average exercise price	Weighted average remaining contractual life (year)
29 Nov 2006 (3 Years)	573,103	100.8p	0.9	717,476	100.8p	1.9
29 Nov 2006 (5 Years)	242,813	100.8p	2.9	301,359	100.8p	3.9
4 June 2008 (3 Years)	525,406	85.0p	1.4	644,382	85.0p	2.4
4 June 2008 (5 Years)	232,185	85.0p	3.4	281,200	85.0p	4.4
24 June 2009 (3 Years)	817,231	79.2p	2.8	-	-	-
24 June 2009 (5 Years)	354,559	79.2p	4.8	-	-	-
	2,745,297	87.2p	2.5	1,944,417	93.3p	2.9

Executive share option schemes

Under the terms of the Smiths News Executive Share Option Scheme, the Board may grant options to purchase ordinary shares in the Company to executives up to an annual limit of 200% of basic annual salary. The exercise of options is conditional on the achievement of a performance target, which is determined by the Board at the time of grant.

As a result of the demerger of the WH Smith Retail business on 31 August 2006 all outstanding options under the unapproved part of the WH Smith Executive Share Option Scheme 1999 were exchanged for new options over the Company's shares.

Date of grant	2009		2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of the period	6,845,998	96.8p	5,602,451	91.5p
Granted	1,987,383	63.3p	1,664,480	110.7p
Exercised	(632,093)	85.5p	(420,933)	81.8p
Forfeited	(324,071)	103.7p	-	-
Outstanding at the end of the period	7,877,217	89.0p	6,845,998	96.8p
Exercisable at the end of the period	3,626,534	86.1p	1,898,459	83.5p

The weighted average share price at date of exercise was 108.1p.

Notes to the Financial Statements

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Share-based payments (continued)

Outstanding options granted under the executive share option schemes as at 31 August 2009 are as follows:

Date of grant	2009			2008		
	Number of options	Weighted average exercise price	Weighted average remaining contractual life (year)	Number of options	Weighted average exercise price	Weighted average remaining contractual life (year)
7 December 1999	24,688	93.0p	0.3	24,688	93.0p	1.3
31 October 2000	77,723	94.0p	1.2	77,723	94.0p	2.2
1 November 2001	103,427	105.0p	2.2	103,427	105.0p	3.2
5 November 2002	72,584	86.0p	3.2	72,584	86.0p	4.2
20 November 2003	243,706	82.0p	4.2	243,706	82.0p	5.2
3 November 2004	934,137	81.0p	5.2	1,162,100	81.0p	6.2
26 November 2004	60,166	74.0p	5.2	60,166	74.0p	6.2
26 April 2005	154,065	86.0p	5.7	154,065	86.0p	6.7
2 November 2005	1,956,038	88.0p	6.2	2,498,748	88.0p	7.2
16 November 2006	732,861	127.5p	7.2	784,311	127.5p	8.2
15 November 2007	1,530,439	110.7p	8.2	1,664,480	110.7p	9.2
27 November 2008	1,987,383	63.3p	9.2	-	-	-
	7,877,217	89.0p	7.1	6,845,998	96.8p	7.4

Notes to the Financial Statements

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Share-based payments (continued)

Management Investment Plan

Under the terms of the WH Smith 2004 Management Investment Plan, executive directors and key senior executives invested their own money to buy ordinary shares in old WH Smith PLC and were granted matching awards (in the form of nil cost options) in November 2004 to acquire further ordinary shares in proportion to the amount they have invested.

The matching awards vested at a level of 94%. On 31 January 2008, 75 % of the value of the vested awards became exercisable, with the remaining 25% being exercisable from 31 January 2009.

All of the remaining outstanding options under the Management Investment Plan were exercised in the year. The weighted average share price at date of exercise for the Smiths News PLC shares was 106.5p and for the WH Smith PLC shares was 430p.

At 31 August 2009 there were nil (2008: 269,329) options outstanding over Smiths News PLC shares and nil (2008: 4,746) options outstanding over WH Smith PLC shares. The weighted average remaining contractual life was nil years (2008: 1.4 years). No options were exercisable at 31 August 2009 (2008: nil).

LTIP

Under the terms of the Smiths News LTIP, executive directors and key senior executives may be awarded each year conditional entitlements to ordinary shares in the Company (in the form of nil cost options) or, in order to retain flexibility and at the Company's discretion, a cash sum linked to the value of a notional award of shares up to a value of 200% of base salary. The vesting of awards is subject to the satisfaction of a performance condition, which is determined by the Remuneration Committee at the time of grant.

	2009	2008
	Number of awards	Number of awards
Outstanding at beginning of the period	1,405,396	1,443,538
Granted	1,250,843	620,578
Exercised	-	(540,147)
Forfeited	(12,583)	(118,573)
Outstanding at the end of the period	2,643,656	1,405,396
Exercisable at the end of the period	-	-

Notes to the Financial Statements

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Outstanding awards granted under the LTIP as at 31 August 2009 are as follows:

Share-based payments (continued)

Date of grant	2009		2008	
	Number of awards	Weighted average remaining contractual life (years)	Number of awards	Weighted average remaining contractual life (years)
16 November 2006	772,235	7.2	784,818	8.2
15 November 2007	620,578	8.2	620,578	9.2
30 April 2009	1,250,843	9.7	-	-
	2,643,656	8.6	1,405,396	8.6

Deferred Bonus Plan

Under the terms of the Smiths News Deferred Bonus Plan, executive directors and key senior executives may be granted each year share awards (in the form of nil-cost options) dependent on the achievement of the Annual Bonus Plan performance targets and Economic Profit Plan payout. The shares under award are exercisable after two years, subject to continued employment.

	2009		2008	
	Number of awards	Number of awards	Number of awards	Number of awards
Outstanding at beginning of the period	-	-	-	-
Granted	775,873	-	-	-
Exercised	(85,693)	-	-	-
Forfeited	-	-	-	-
Outstanding at the end of the period	690,180	-	-	-
Exercisable at the end of the period	-	-	-	-

The weighted average share price at date of exercise was 106.5p.

Outstanding awards granted under the Deferred Bonus Plan as at 31 August 2009 are as follows:

Date of grant	2009		2008	
	Number of awards	Weighted average remaining contractual life (years)	Number of awards	Weighted average remaining contractual life (years)
23 October 2008	690,180	1.2	-	-
	690,180	1.2	-	-

Notes to the Financial Statements

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Share-based payments (continued)

Economic Profit Plan

Under this plan, executive directors and key senior executives may receive each year a cash payment and/or be granted a share award under the terms of the Deferred Bonus Plan, based on the value of an economic profit Pool. The value of the Pool is determined by the economic profit (calculated as profit after tax less the cost of capital employed) created in each financial year, with 10 per cent of this economic profit (9 per cent in the year under review to reflect the lower than normal tax charge) being contributed to the Pool (if there is an economic loss in any year the value of the Pool will be diminished). One third of the Pool is then distributed to participants each year and two thirds is carried forward to form part of the Pool for the following year.

Awards will be granted under the plan in November 2009. The weighted average remaining contractual life is 2.2 years. No awards were exercisable at 31 August 2009.

Sharesave Scheme and executive share option schemes

The share options granted during each period have been valued using a Black-Scholes model.

The inputs to the Black-Scholes model are as follows:

	Sharesave Scheme		Executive share options	
	2009	2008	2009	2008
Share price at grant date – pence	85.0	98.3	63.3	105.0
Exercise price date – pence	79.2	85.0	63.3	110.7
Expected volatility – per cent	38.0	26.0	40.0	26.0
Expected life – years	3.0-5.0	3.0-5.0	3.0	3.0
Risk free rate – per cent	2.5	4.6	2.5	4.6
Dividend yield – per cent	6.8	4.7	6.7	4.7
Weighted average fair value – pence	14.7-15.7	21.0	11.7	14.2

Expected volatility was based on the median three-year share price volatility of 42 FTSE Support Services Companies.

LTIP awards

The fair values of the LTIP awards granted in 2009 were measured by reference to the share price at date of grant discounted at the estimated dividend yield per cent.

The inputs into this calculation were as follows:

	2009	2008
Share price – pence	100.2	105.0
Dividend yield – per cent	6.7	4.7
Weighted average fair value – pence	81.4	90.9

Notes to the Financial Statements

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Called up share capital

(a) Share Capital

£m	2009	2008
Authorised:		
300.0m ordinary shares of 5p each	15.0	15.0
Issued and fully paid		
182.9m ordinary shares of 5p each	9.1	9.1

(b) Movement in share capital

£m	Ordinary shares of 5p each
At 1 September 2007 and 31 August 2009	9.1

The holders of ordinary shares are entitled to receive dividends as declared from time-to-time and are entitled to one vote per share at the meetings of the Company. The Company has one class of ordinary shares, which carry no right to fixed income.

Notes to the Financial Statements

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Reconciliation of movements in equity

£m	Share Capital	Other Reserve ¹	ESOP Reserve	Hedging Reserve	Retained Earnings	Total
Balance at 1 September 2007	9.1	(280.1)	(3.7)	0.9	196.4	(77.4)
Total recognised income and expense for the year	-	-	-	(0.6)	21.9	21.3
Dividends paid	-	-	-	-	(11.7)	(11.7)
Employee share schemes	-	-	0.6	-	(0.6)	-
Recognition of share based payments	-	-	-	-	0.6	0.6
Movement in available for sale investments	-	-	(0.8)	-	(0.3)	(1.1)
Balance at 31 August 2008	9.1	(280.1)	(3.9)	0.3	206.3	(68.3)
Total recognised income and expense for the year	-	-	-	(1.7)	12.6	10.9
Dividends paid	-	-	-	-	(12.0)	(12.0)
Employee share schemes	-	-	0.5	-	(0.5)	-
Recognition of share based payments	-	-	-	-	1.0	1.0
Balance at 31 August 2009	9.1	(280.1)	(3.4)	(1.4)	207.4	(68.4)

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

Notes to the Financial Statements

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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

£m	Sales to related parties		Amounts owed by related parties	
	2009	2008	2009	2008
Joint venture	0.1	0.2	-	0.2

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

£m	Loan to related parties	
	2009	2008
Joint venture	0.3	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 executive and non-executive directors, 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.'

£m	2009	2008
Short-term employee benefits	2.7	2.2
Post-employment benefits	0.2	0.2
Share based payments	0.5	0.1
	3.4	2.5

Information concerning directors' remuneration, interest in shares and share options are included in the Remuneration report on pages 51 to 63.

Directors' transactions

There are no other transactions with directors.

Notes to the Financial Statements

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Principal companies

The principal companies of the Group are disclosed below, these are wholly owned subsidiaries and associates:

Name	Country of incorporation / registration	Proportion of ownership interest
Smiths News Holdings Limited	England and Wales	100%
Smiths News Trading Limited	England and Wales	100%
Bertram Trading Limited	England and Wales	100%
Rascal Solutions Limited	England and Wales	50%

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Post Balance sheet events

On the 24 September 2009 the Office for Fair Trading announced it would not refer the newspaper and magazine supply chain to the Competition Commission.

Four Year Financial Summary

The demerger of WH Smith PLC in September 2006 makes comparison with prior years unclear. We have therefore elected not to include results prior to that date. A four year summary is disclosed below and we will build to a five year comparison next year.

Group income statement				
£m	12 months to			
	31 August 2009	31 August 2008	31 August 2007	31 August 2006
Continuing operations				
Revenue	1,326.0	1,240.6	1,232.4	1,210.6
Operating profit before non-recurring items	32.4	36.0	36.0	33.0
Non-recurring items	(10.8)	0.1	5.4	1.3
Operating profit	21.6	36.1	41.4	34.3
Net finance charges	(3.2)	(3.5)	(5.0)	(2.3)
Profit before tax	18.4	32.6	36.4	32.0
Income tax expense	(0.7)	(6.1)	(7.7)	(6.4)
Profit for the year from continuing operations	17.7	26.5	28.7	25.6
Discontinued operations	-	-	-	32.1
Profit for the period	17.7	26.5	28.7	57.7
Earnings per share				
Basic – continuing operations	9.9p	14.8p	16.1p	14.9p
Basic	9.9p	14.8p	16.1p	33.5p
Diluted	9.9p	14.7p	15.8p	33.3p
Underlying Earnings per share				
Basic – continuing operations	13.8p	14.5p	14.0p	14.1p
Basic	13.8p	14.5p	14.0p	32.8p

Four Year Financial Summary

Group balance sheet				
£m	31 August 2009	31 August 2008	31 August 2007	31 August 2006
Non-current assets				
Intangible assets	12.7	4.1	3.4	2.6
Property plant and equipment	21.1	15.5	18.2	19.2
Deferred tax assets	3.3	11.6	6.0	15.6
Other non-current assets	3.5	3.5	1.1	0.3
Total non-current assets	40.6	34.7	28.7	37.7
Current assets	150.2	76.1	66.4	93.0
Total assets	190.8	110.8	95.1	130.7
Current liabilities	(213.4)	(126.9)	(123.3)	(134.4)
Non-current liabilities				
Bank loans and other borrowings	(34.3)	(39.7)	(44.6)	(49.6)
Retirement benefit obligation	-	-	-	(49.1)
Deferred tax liabilities	(2.0)	(10.1)	(1.6)	(1.7)
Other non-current liabilities	(9.5)	(2.4)	(3.0)	(3.2)
Total liabilities	(259.2)	(179.1)	(172.5)	(238.0)
Total net liabilities	(68.4)	(68.3)	(77.4)	(107.3)

Independent Auditors' Report to the Members of Smiths News PLC

We have audited the parent company financial statements of Smiths News PLC for the year ended 31 August 2009 which comprise the Parent Company Balance Sheet, the Parent Company Reconciliation of movements in shareholders' funds and the related notes 1 to 8. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with sections 495, 496 and 497 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the parent company's affairs as at 31 August 2009;

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the group financial statements of Smiths News PLC for the year ended 31 August 2009.

**Mark Mullins (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Reading, United Kingdom
22 October 2009**

Company Balance Sheet

As at 31 August 2009

£m	Note	2009	2008
Fixed Assets			
Investments in subsidiary undertakings	3	520.0	669.2
		520.0	669.2
Creditors: Amounts falling due within one year	4	-	(60.0)
Net current liabilities		-	(60.0)
Creditors: Amounts falling due after more than one year	5	(440.6)	(448.6)
Total net assets		79.4	160.6
Capital and Reserves			
Called up share capital	6	9.1	9.1
Retained earnings	7	70.3	151.5
Total shareholders' funds		79.4	160.6

These financial statements were approved by the Board of Directors on 22 October 2009.

Signed on behalf of the Board of Directors

Mark Cashmore
Director

Alan Humphrey
Director

Reconciliation of movements in shareholders' funds

For the year ended 31 August 2009

£m	2009	2008
Opening shareholders' funds	160.6	172.4
Retained loss for the financial year	(81.2)	(11.8)
Net reduction in shareholders' funds	(81.2)	(11.8)
Closing shareholders' funds	79.4	160.6

Notes to the Company Balance Sheet

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Accounting Policies

(a) Accounting convention

The financial statements are prepared in compliance with the Companies Act 2006 and in accordance with applicable United Kingdom law and accounting standards. The financial statements are prepared under the historical cost convention. The accounting policies have been applied consistently in the current and prior year.

In accordance with FRS 1 (Revised), a statement of cash flows has not been prepared.

(b) Investment in subsidiary undertakings

Investments in subsidiary undertakings are individually valued at historical cost less provision for impairment in value.

(c) Financial liabilities and equities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

(d) Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

02

Loss for the year

The Company has not presented its own profit and loss account as permitted by section 230 of the Companies Act 2006. The loss for the year attributable to shareholders, which is stated on an historical cost basis, was £81.2m (2008: £11.8m). The £81.2m loss in the year comprises an impairment of investments in subsidiary undertakings of £149.2m offset by intercompany dividends received of £68.0m. There were no other recognised gains or losses.

03

Investments in subsidiary undertakings

£m	2009	2008
Cost or valuation:		
At 1 September	669.2	669.2
Impairment	(149.2)	-
At 31 August	520.0	669.2

During the year the Company reviewed the carrying value of its investments. The outcome resulted in a £149.2m impairment in the value of the investments in Group companies.

04

Creditors: amounts falling due within one year

£m	2009	2008
Amounts owed to Group companies	-	60.0

Notes to the Company Balance Sheet

05

Creditors: amounts falling due after more than one year

£m	2009	2008
Amounts owed to Group companies	440.6	448.6

06

Called up share capital

£	2009	2008
Authorised:		
300.0m Ordinary Shares of 5p each	15,000,000	15,000,000
40 Deferred shares of £1 each	40	40
1 Redeemable preference share of £50,000	50,000	50,000

£	2009	2008
Issued and fully paid:		
Ordinary Shares of 5p each	9,146,013	9,145,997

(b) Movement in share capital	Ordinary shares of 5p each
At 1 September 2008	182,919,930
Issued in the year	329
At 31 August 2009	182,920,259

The holders of ordinary shares are entitled to receive dividends as declared from time-to-time and are entitled to one vote per share at the meetings of the Company. The Company has one class of ordinary shares, which carry no right to fixed income.

07

Reserves

£m	2009		2008	
	Share capital	Profit and loss account	Total	Total
Balance at 1 September	9.1	151.5	160.6	172.4
Dividend paid	-	(12.0)	(12.0)	(11.7)
Loss retained for the year	-	(69.2)	(69.2)	(0.1)
Balance at 31 August	9.1	70.3	79.4	160.6

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Related party transactions

The Company has taken advantage of the exemption granted by paragraph 3(c) of FRS 8, Related Party Disclosures, not to disclose transactions with Smiths News Group companies and interests of the Group, which are related parties.

Shareholder Information

Company Secretary and Registered Office

Mark Charlton, Smiths News PLC, Wakefield House, Pipers Way, Swindon, Wiltshire SN3 1RF.

Telephone 0845 1230000.

Smiths News PLC is registered in England and Wales (Number 5195191).

Company website

Smiths News PLC Annual Reports and results announcements are available via the internet on our website www.smithsnews.co.uk. The site provides a wide range of information about the Company including AGM information, share price data, financial calendar and regulatory news releases.

Annual Report and Financial Statements

This Annual Report and Financial Statements is published on our website at www.smithsnews.co.uk and has only been sent to those shareholders who have asked for a copy. Shareholders who have not requested a paper copy of the Annual Report have been notified of its availability on the website.

A paper copy of the Annual Report can be obtained by writing to the Company Secretary, Smiths News PLC, Wakefield House, Pipers Way, Swindon, Wiltshire SN3 1RF or you can e-mail your request to investor.relations@smithsnews.co.uk.

Annual General Meeting

The Annual General Meeting will be held at Wakefield House, Pipers Way, Swindon, Wiltshire SN3 1RF on Friday 15 January 2010 at 11.30am. The Notice of Annual General Meeting sets out the business to be transacted. Shareholders who wish to attend the meeting should detach the Attendance Card from the Proxy Form and present it at the registration desk on arrival.

Proxy Form

A Proxy Form is enclosed for those shareholders unable to attend the Annual General Meeting. To be effective, it must be completed and lodged with the Company's Registrars, Equiniti, by not later than 11.30am on 13 January 2010.

Electronic proxy voting

You may if you wish register the appointment of a proxy for the meeting electronically, by logging onto the website www.sharevote.co.uk. Full details of the procedure are given on the website. You will need to have your Proxy

Form to hand when you log on as it contains information which will be required. CREST members may appoint a proxy electronically via Equiniti (ID RA19). Electronic proxy voting instructions must be received by not later than 11.30am on 13 January 2010.

Registrars

If you have any enquiries about your shareholding in Smiths News PLC or wish to advise of a change of address, please contact Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA (telephone 0871 384 2771). A textphone facility for shareholders with hearing difficulties is available by telephoning 0871 384 2255. In addition, Equiniti provides a range of shareholder information online at www.shareview.co.uk (to register for this service you will need your shareholder reference number which can be found on the Proxy Form).

Financial calendar

Financial year end	31 August 2009
Results announced	22 October 2009
Annual Report published	14 December 2009
Final dividend ex-dividend date	6 January 2010
Final dividend record date	8 January 2010
Interim Management Statement	15 January 2010
Annual General Meeting	15 January 2010
Final dividend payment date	5 February 2010
Half-year end	28 February 2010
Interim results announced	22 April 2010
Interim dividend ex-dividend date	May 2010
Interim dividend record date	May 2010
Interim dividend payment date	June 2010
Interim Management Statement	July 2010
Financial year end	31 August 2010
Results announced	October 2010

Share dealing services

The Company has arranged for Shareview Dealing, a telephone and internet share dealing service offered by Equiniti, to be made available to UK shareholders wishing to buy or sell the Company's shares.

Shareholder Information

For telephone dealing call 08456 037 037 between 8.30am and 4.30pm, Monday to Friday, and for internet dealing log on to www.shareview.co.uk/dealing. You will need your shareholder reference number shown on your share certificate.

JPMorgan Cazenove provides a postal share dealing service for private investors who wish to buy or sell the Company's shares. Further details are available from JPMorgan Cazenove, telephone 020 7155 5155.

ShareGIFT

If you only have a small number of shares which are uneconomic to sell, you may wish to consider donating them to charity under ShareGIFT, a charity share donation scheme administered by the Orr Mackintosh Foundation. A ShareGIFT transfer form may be obtained from Equiniti. Further information about the Scheme can be found on the ShareGIFT website at www.sharegift.org.

Shareholder security

Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount or offers of free reports about the Company. Details of any share dealing facilities that the Company endorses will be included in the Company's mailings or on our website. More detailed information can be found at www.moneymadeclear.fsa.gov.uk.

UK Capital Gains Tax

Demerger 31 August 2006

Following the demerger of new WH Smith PLC on 31 August 2006, in order to calculate any chargeable gains or losses arising on the disposal of shares after 31 August 2006, the original tax base cost of your old WH Smith PLC ordinary shares of 2¹³/₈₁p (adjusted if you held your shares at 24 September 2004 and 22 May 1998 to take into account the capital reorganisations of 27 September 2004 and 26 May 1998 respectively (see below)) will be apportioned between the shareholdings of ordinary shares of 5p in the Company and ordinary shares of 22⁶/₆₇p (or 20p if the disposal took place before 22 February 2008) in new WH Smith PLC in the ratio of 0.30415 and 0.69585 respectively.

Capital reorganisation 27 September 2004

If your shares result from a holding of old WH Smith PLC shares acquired on or before 24 September 2004, in order to calculate any chargeable gains or losses arising on the disposal of shares after 24 September 2004, the original

tax base cost of your old WH Smith PLC ordinary shares of 55⁹/₉p (adjusted if you held your shares as at 22 May 1998 to take into account the capital reorganisation of 26 May 1998 (see below)) will be apportioned between the shareholdings of ordinary shares of 2¹³/₈₁p and 'C' shares resulting from the capital reorganisation.

The cost of your shareholding of ordinary shares of 2¹³/₈₁p is calculated by multiplying the original base cost of your ordinary shares of 55⁹/₉p (adjusted where necessary to take into account the capital reorganisation of 26 May 1998 referred to above) by 0.73979.

The cost of the 'C' shares is calculated by multiplying the original base cost of your ordinary shares of 55⁹/₉p (again adjusted where necessary, to take into account the capital reorganisation of 26 May 1998 referred to above) by 0.26021.

Capital reorganisation 26 May 1998

If your shares result from a holding of old WH Smith PLC shares acquired on or before 22 May 1998, in order to calculate any chargeable gains or losses arising on the disposal of shares after 22 May 1998, the original tax base cost of your old WH Smith PLC ordinary shares of 50p will be apportioned between the shareholdings of ordinary shares of 55⁹/₉p and redeemable 'B' shares resulting from the capital reorganisation.

The cost of your shareholding of ordinary shares of 55⁹/₉p is calculated by multiplying the original base cost of your ordinary shares of 50p by 0.90714.

The original cost of the 'B' shares is calculated by multiplying the original base cost of your ordinary shares of 50p by 0.09286.

March 1982 values

31 March 1982 base values per share:

Arising from an original shareholding of old WH Smith PLC

	'A' ordinary shares	'B' ordinary shares
Ordinary shares of 5p	26.93p	22.25p
WH Smith PLC ordinary shares of 22 ⁶ / ₆₇ p	61.62p	50.92p

SmithsNewsPLC

Annual Report and Financial Statements 2009

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