

# 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

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## 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

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## 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.

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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

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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

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## 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.

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## 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.

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## (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.

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## 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
<b>Profit before tax</b>	<b>18.3</b>	<b>32.6</b>	<b>0.1</b>	<b>-</b>	<b>18.4</b>	<b>32.6</b>

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

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## Segmental analysis (continued)

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

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)	-
<b>Consolidated total assets</b>	<b>(259.2)</b>	<b>(179.1)</b>

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	-
<b>Consolidated total</b>	<b>(7.1)</b>	<b>(6.1)</b>	<b>22.0</b>	<b>4.9</b>

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.

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## 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)
<b>Gross profit</b>	<b>130.6</b>	<b>-</b>	<b>130.6</b>	<b>123.5</b>	<b>-</b>	<b>123.5</b>
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
<b>Operating profit</b>	<b>32.4</b>	<b>(10.8)</b>	<b>21.6</b>	<b>36.0</b>	<b>0.1</b>	<b>36.1</b>

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

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**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
<b>Total audit fees</b>	<b>0.2</b>	<b>0.1</b>
Other services pursuant to legislation:		
• Tax services	0.2	-
• Corporate finance services	0.1	0.1
• Other services	0.1	-
<b>Total non-audit fees</b>	<b>0.4</b>	<b>0.1</b>

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.

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**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)	<b>(10.8)</b>	0.1	
Finance costs / Investment revenues	-	(1.3)	-	-	-	<b>(1.3)</b>	-	
<b>Non-recurring (loss)/ profit before tax</b>	<b>(3.1)</b>	<b>(1.5)</b>	<b>(4.6)</b>	<b>(2.5)</b>	<b>(0.4)</b>	<b>(12.1)</b>	<b>0.1</b>	
Income tax credit	0.8	2.3	1.1	0.7	0.1	<b>5.0</b>	0.4	
<b>Non-recurring (loss)/profit after tax</b>	<b>(2.3)</b>	<b>0.8</b>	<b>(3.5)</b>	<b>(1.8)</b>	<b>(0.3)</b>	<b>(7.1)</b>	<b>0.5</b>	

## 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.

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**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.

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## 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
<b>Surplus</b>	<b>19.3</b>	<b>62.4</b>
Amounts not recognised due to asset limit	(19.3)	(62.4)
<b>Retirement benefit obligation recognised in the balance sheet</b>	<b>-</b>	<b>-</b>

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
	<b>1.0</b>	<b>0.6</b>

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
<b>At 31 August</b>	<b>(338.1)</b>	<b>(320.1)</b>

# 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)
<b>At 31 August</b>	<b>357.4</b>	<b>382.5</b>

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
	<b>357.4</b>	<b>382.5</b>

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
<b>Life expectancy at age 65</b>		
Member currently aged 65	21.3	23.2
Member currently aged 45	23.2	25.0
<b>Life expectancy at age 60</b>		
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)	-	-
<b>Deficit in the scheme</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(49.0)</b>	<b>(96.1)</b>
<b>Experience adjustments on scheme liabilities</b>					
Amount (£m)	12.5	3.6	21.9	(16.6)	(114.7)
Percentage of scheme liabilities	4%	1%	7%	(5%)	(12%)
<b>Experience adjustments on scheme assets</b>					
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
<b>Total</b>	<b>82.2</b>	<b>72.3</b>

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
<b>Total</b>	<b>4,329</b>	<b>4,067</b>

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
	<b>62.3</b>	<b>2.0</b>	<b>64.3</b>	<b>43.5</b>	<b>3.0</b>	<b>46.5</b>

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
	<b>1.2</b>	<b>2.3</b>

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
<b>Underlying investment revenues</b>	<b>1.2</b>	<b>0.8</b>
Non-recurring item – interest income	1.4	-
<b>Investment revenues</b>	<b>2.6</b>	<b>0.8</b>

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
<b>Underlying finance costs</b>	<b>3.1</b>	<b>4.3</b>
Non-recurring item - foreign exchange loss on cross-currency contract	2.7	-
<b>Finance costs</b>	<b>5.8</b>	<b>4.3</b>

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)
<b>Total current tax charge</b>	<b>7.1</b>	<b>(5.0)</b>	<b>2.1</b>	<b>5.1</b>	<b>(0.4)</b>	<b>4.7</b>
Deferred tax - current year	(0.6)	-	(0.6)	1.2	-	1.2
Deferred tax - prior year	(0.8)	-	(0.8)	0.2	-	0.2
<b>Total tax on profit</b>	<b>5.7</b>	<b>(5.0)</b>	<b>0.7</b>	<b>6.5</b>	<b>(0.4)</b>	<b>6.1</b>
<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
<b>Profit before tax</b>	<b>18.4</b>	<b>32.6</b>
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)
<b>Total tax charge</b>	<b>0.7</b>	<b>6.1</b>

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
	<b>12.0</b>	<b>11.7</b>

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)
<b>Underlying profit for the financial year</b>	<b>24.8</b>	<b>26.0</b>
	Number m	Number m
Weighted average number of shares in issue	182.9	182.9
Shares held by ESOP (weighted)	(3.4)	(3.6)
<b>Weighted average number of shares in issue for basic earnings per share</b>	<b>179.5</b>	<b>179.3</b>
Shares issuable (weighted)	0.1	1.0
<b>Weighted average number of shares in issue for diluted earnings per share</b>	<b>179.6</b>	<b>180.3</b>
	Pence	Pence
<b>Earnings per share:</b>		
Basic	9.9	14.8
Diluted	9.9	14.7
<b>Underlying earnings per share:</b>		
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
<b>Cost:</b>					
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
<b>At 31 August 2009</b>	<b>4.1</b>	<b>5.1</b>	<b>1.7</b>	<b>21.7</b>	<b>32.6</b>
<b>Accumulated amortisation:</b>					
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
<b>At 31 August 2009</b>	<b>-</b>	<b>0.4</b>	<b>0.5</b>	<b>19.0</b>	<b>19.9</b>
<b>Net book value at 31 August 2009</b>	<b>4.1</b>	<b>4.7</b>	<b>1.2</b>	<b>2.7</b>	<b>12.7</b>
<b>Cost:</b>					
At 1 September 2007	-	-	-	20.2	20.2
Additions	-	-	-	2.0	2.0
<b>At 31 August 2008</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>22.2</b>	<b>22.2</b>
<b>Accumulated amortisation:</b>					
At 1 September 2007	-	-	-	16.8	16.8
Amortisation charge	-	-	-	1.3	1.3
<b>At 31 August 2008</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18.1</b>	<b>18.1</b>
<b>Net book value at 31 August 2008</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4.1</b>	<b>4.1</b>

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			
<b>Cost or valuation:</b>						
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)
<b>At 31 August 2009</b>	<b>0.9</b>	<b>0.5</b>	<b>14.2</b>	<b>7.4</b>	<b>34.4</b>	<b>57.4</b>
<b>Accumulated depreciation:</b>						
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)
<b>At 31 August 2009</b>	<b>-</b>	<b>0.1</b>	<b>9.0</b>	<b>3.5</b>	<b>23.7</b>	<b>36.3</b>
<b>Net book value at 31 August 2009</b>	<b>0.9</b>	<b>0.4</b>	<b>5.2</b>	<b>3.9</b>	<b>10.7</b>	<b>21.1</b>
<b>Cost or valuation:</b>						
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)
<b>At 31 August 2008</b>	<b>-</b>	<b>0.5</b>	<b>12.5</b>	<b>5.1</b>	<b>27.9</b>	<b>46.0</b>
<b>Accumulated depreciation:</b>						
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)
<b>At 31 August 2008</b>	<b>-</b>	<b>-</b>	<b>8.4</b>	<b>2.9</b>	<b>19.2</b>	<b>30.5</b>
<b>Net book value at 31 August 2008</b>	<b>-</b>	<b>0.5</b>	<b>4.1</b>	<b>2.2</b>	<b>8.7</b>	<b>15.5</b>

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	<b>0.4</b>	0.3	0.1	<b>0.4</b>
Current assets	0.6	0.5	<b>1.1</b>	0.6	0.4	<b>1.0</b>
Total assets	0.9	0.6	<b>1.5</b>	0.9	0.5	<b>1.4</b>
Current liabilities	(0.3)	(0.4)	<b>(0.7)</b>	(0.5)	(0.3)	<b>(0.8)</b>
Non-current liabilities	(0.2)	-	<b>(0.2)</b>	(0.2)	-	<b>(0.2)</b>
Total liabilities	(0.5)	(0.4)	<b>(0.9)</b>	(0.7)	(0.3)	<b>(1.0)</b>
Goodwill	2.9	-	<b>2.9</b>	2.9	-	<b>2.9</b>
<b>Share of net assets</b>	<b>3.3</b>	<b>0.2</b>	<b>3.5</b>	<b>3.1</b>	<b>0.2</b>	<b>3.3</b>
Revenue	2.3	2.5	<b>4.8</b>	0.9	2.6	<b>3.5</b>
Profit after tax	0.1	0.1	<b>0.2</b>	-	-	-

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.

# Notes to the Financial Statements

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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
	<b>114.8</b>	<b>60.5</b>

### 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
	<b>0.3</b>	<b>0.2</b>

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)	-
<b>At 31 August</b>	<b>0.6</b>	<b>0.1</b>

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
	<b>0.6</b>	<b>0.1</b>

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
	<b>191.6</b>	<b>113.1</b>

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.

# Notes to the Financial Statements

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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
<b>Amount payable under finance leases:</b>				
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
<b>Total</b>	<b>4.9</b>	<b>4.4</b>	<b>2.9</b>	<b>2.7</b>
Less: future finance charges	(0.5)	-	(0.2)	-
<b>Present value of lease obligations</b>	<b>4.4</b>	<b>4.4</b>	<b>2.7</b>	<b>2.7</b>
Less: Amount due for settlement within 12 months (shown under current liabilities)	(1.5)	(1.5)	(1.4)	(1.4)
<b>Amount due for settlement after 12 months</b>	<b>2.9</b>	<b>2.9</b>	<b>1.3</b>	<b>1.3</b>

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

£m	2009	2008
<b>Included within current liabilities</b>	<b>3.8</b>	<b>-</b>
<b>Included within non-current liabilities</b>	<b>4.6</b>	<b>0.7</b>
<b>Total</b>	<b>8.4</b>	<b>0.7</b>

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)
<b>At 31 August 2009</b>	<b>(0.7)</b>	<b>-</b>	<b>0.5</b>	<b>1.5</b>	<b>1.3</b>
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)
<b>At 31 August 2008</b>	<b>(1.7)</b>	<b>-</b>	<b>0.1</b>	<b>3.1</b>	<b>1.5</b>

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)
	<b>1.3</b>	<b>1.5</b>

# 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	-
<b>Total borrowings</b>	<b>49.4</b>	<b>44.7</b>
<b>Total borrowings</b>		
Amount due for settlement within 12 months	15.1	5.0
Amount due for settlement after 12 months	34.3	39.7
	<b>49.4</b>	<b>44.7</b>

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)	-	-
	<b>(0.2)</b>	<b>(0.6)</b>	<b>(1.3)</b>	<b>0.2</b>

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
<b>Financial assets</b>		
Derivative instruments in designated hedge accounting relationships	-	0.2
Cash and cash equivalents	4.3	3.4
<b>Financial liabilities</b>		
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
<b>Outstanding receive floating pay fixed contracts</b>						
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
	<b>105.2</b>	<b>53.6</b>

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.

# Notes to the Financial Statements

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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
<b>At 31 August 2009</b>				
<b>Non derivative financial liabilities</b>				
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)
<b>Derivative and other financial liabilities</b>				
Net settled derivative contracts - receipts	0.3	0.3	-	-
Net settled derivative contracts - payments	(1.2)	(0.9)	-	-
<b>Total</b>	<b>(20.6)</b>	<b>(40.0)</b>	<b>(0.8)</b>	<b>(0.6)</b>
<b>At 31 August 2008</b>				
<b>Non derivative financial liabilities</b>				
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)
<b>Derivative and other financial liabilities</b>				
Net settled derivative contracts - receipts	2.0	1.4	0.7	-
Net settled derivative contracts - payments	(1.6)	(1.2)	(0.6)	-
<b>Total</b>	<b>(8.9)</b>	<b>(8.0)</b>	<b>(37.0)</b>	<b>(0.1)</b>

# Notes to the Financial Statements

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## 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)
<b>Net identifiable assets and liabilities</b>	<b>(3.0)</b>	<b>2.4</b>	<b>(0.6)</b>
Directly attributable acquisition costs	(1.6)	-	(1.6)
Cash transferred as consideration	(1.9)	-	(1.9)
<b>Provisional estimate of goodwill</b>	<b>6.5</b>	<b>(2.4)</b>	<b>4.1</b>

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.

# Notes to the Financial Statements

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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
<b>Net cash inflow from operating activities</b>	<b>31.9</b>	<b>28.7</b>

# 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
<b>Outstanding at the end of the period</b>	<b>2,745,297</b>	<b>87.2p</b>	<b>1,944,417</b>	<b>93.3p</b>
<b>Exercisable at the end of the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

# 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	-	-	-
	<b>2,745,297</b>	<b>87.2p</b>	<b>2.5</b>	<b>1,944,417</b>	<b>93.3p</b>	<b>2.9</b>

### 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	-	-
<b>Outstanding at the end of the period</b>	<b>7,877,217</b>	<b>89.0p</b>	<b>6,845,998</b>	<b>96.8p</b>
<b>Exercisable at the end of the period</b>	<b>3,626,534</b>	<b>86.1p</b>	<b>1,898,459</b>	<b>83.5p</b>

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	-	-	-
	<b>7,877,217</b>	<b>89.0p</b>	<b>7.1</b>	<b>6,845,998</b>	<b>96.8p</b>	<b>7.4</b>

# 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)
<b>Outstanding at the end of the period</b>	<b>2,643,656</b>	<b>1,405,396</b>
<b>Exercisable at the end of the period</b>	<b>-</b>	<b>-</b>

# 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	-	-
	<b>2,643,656</b>	<b>8.6</b>	<b>1,405,396</b>	<b>8.6</b>

## 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	-	-	-	-
<b>Outstanding at the end of the period</b>	<b>690,180</b>	-	-	-
<b>Exercisable at the end of the period</b>	<b>-</b>	-	-	-

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	-	-
	<b>690,180</b>	<b>1.2</b>	-	-

# 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
<b>Authorised:</b>		
300.0m ordinary shares of 5p each	15.0	15.0
<b>Issued and fully paid</b>		
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 <sup>1</sup>	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)
<b>Balance at 31 August 2008</b>	<b>9.1</b>	<b>(280.1)</b>	<b>(3.9)</b>	<b>0.3</b>	<b>206.3</b>	<b>(68.3)</b>
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
<b>Balance at 31 August 2009</b>	<b>9.1</b>	<b>(280.1)</b>	<b>(3.4)</b>	<b>(1.4)</b>	<b>207.4</b>	<b>(68.4)</b>

<sup>1</sup>The '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
	<b>3.4</b>	<b>2.5</b>

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.