Company Registration No.05195191

Smiths News PLC

Annual Report and Accounts

For the year ended 31 August 2012

Stock Code NWS

Smiths News

Bertrams

The Consortium

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COMPANIES HOUSE

Media & Marketing

Growing

A market leader in chosen specialist distribution markets which build on our skills and competencies.

We operate through four divisions

Smiths News

Smiths News is the UK's leading newspaper and magazine wholesaler serving 30,000 customers from 48 distribution centres across the UK

Read the Divisional Review on page **18**

Bertrams

Bertrams is a leading distributor of physical and digital books to high street and online retailers, public libraries and academic institutions in 102 countries

Read the Divisional Review on page **21**

The Consortium

A leading UK distributor of educational consumable products, servicing 30,000 customers

Read the Divisional Review on page **24**

Media & Marketing

The world's largest supplier of newspapers and magazines to airlines and an emerging player in in-flight entertainment The division also provides fulfilment and logistics support

Read the Divisional Review on page 27

Discover more on our website
www.smithsnews.co.uk

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

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Our Business

Chairman's Statement

Dennis Millard

'I am delighted to report another year of strong results and strategic progress by Smiths News PLC. Despite a challenging economic backdrop with uncertainty in many market sectors, all the Group's trading divisions achieved profit growth '

Dennis Millard Chairman

Earnings and dividends

KPI **Underlying earnings per share**

28.4%

to 19.9p

KPI **Dividend per share**

7.5%

to 8.6p

I am delighted to report another year of strong results and strategic progress by Smiths News PLC Despite a challenging economic backdrop with uncertainty in many market sectors, all the Group's trading divisions achieved profit growth And, with the acquisition of The Consortium in April 2012, further progress has been made towards our strategic goal of diversifying into other specialist distribution markets I am particularly pleased to report that as a result of our successful diversification strategy the Group is now generating almost 30% of its profit from activities outside of newspaper and magazine wholesaling

Smiths News, our newspaper and magazine distribution division, continues to deliver strong returns Performance was driven by network restructuring and sustainable efficiency gains, executed with the precision and unstinting attention to customer service that we have come to expect In August 2012, Smiths News was awarded a major new contract extension with News International that will increase our footprint of its titles and underpin our network through to and beyond 2019 Whilst the newspaper and magazine markets are likely to remain challenging, our ability to restructure and continually improve process in light of falling volumes gives confidence that profitability can be sustained in this division

Bertrams, our book wholesaler and library services provider, had a transformational year following the acquisition of Dawson Holdings PLC in August 2011 The integration of Dawson Books into our Norwich hub is now completed

with minimal disruption to customers and the planned efficiencies are being achieved Since taking ownership in March 2009, we have grown Bertrams into a scale business serving traditional booksellers, internet retailers, public and academic libraries, international customers and digital subscribers This diverse portfolio is a key strength, allowing us to respond to opportunities in what is a rapidly changing market In June 2012, we further strengthened our international presence with the acquisition of Houtschild Internationale Boekhandel, a specialist academic books distributor based in the Netherlands

The acquisition of The Consortium, a leading independent distributor of consumable products to the UK's education and care markets, in April 2012 was another significant step in our diversification strategy Careful and in-depth analysis was called for to find the right opportunity The Consortium met all of our criteria, with a strong match to our core skills and operating in the growing education market It also offers us further opportunity to increase share and to build from a position of strength In the short period since joining the Group, it is clear that The Consortium shares our determination to succeed, putting service and expertise at the heart of its customer offer

In this short introduction I have only touched on the highlights of the year More detailed review of our performance and progress against our strategic targets is set out in the Operating Review on page 14 of this report

As always, the Group has ensured its progress is compatible with strong returns to shareholders Underlying profit before tax is up 23 1% to £47 5m, statutory profit before tax is up 14 0% to £36 6m and underlying basic earnings per share increased 28 4% to 19 9p Free cash flow increased to £27 2m (2011 £22 5m) Given the Board's confidence in the future prospects for the Group and its positive cash flow characteristics, a final dividend of 5 8p per share has been proposed, making a full year dividend of 8 6p, up 7 5% on last year

These strong results are made possible by the efforts and dedication of all our staff to serve our customers Few businesses operate to the demanding service levels that characterise the Smiths News Group I would like to thank all of our colleagues and pay tribute to the leadership of Mark Cashmore and the Executive Team in steering the Group on such a clear and purposeful course

Thanks also go to my colleagues on the Board for their support and challenge throughout the year As described in the Corporate Governance section on page 57, we have used external resources to consider the role and effectiveness of the Board and I am pleased to report that the Board continues to work diligently and effectively

In concluding, I am pleased to look back on a strong and successful year But I am equally confident about the future The Group is better than ever positioned to grow and take advantage of opportunities in all of its markets I look forward to reporting on an exciting and successful year ahead

Dennis Millard
Chairman

Our Business

Share price +39% to 116p since the start of the year

Dividend growth 7.5% to 8.6p

Our Business

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Our Business

Smiths News PLC has consistently delivered on its strategy since demerger.

'2012 has been a year of real progress. We successfully renewed the News International contract through to 2019 and again delivered on all of our service and efficiency targets, with profit growth in all divisions. Dawson Holdings has been integrated successfully achieving all our objectives. Finally, we acquired The Consortium, a key milestone in our diversification strategy and an immediately earnings accretive acquisition. I am genuinely proud of what we have achieved across the Group.'

Mark Cashmore Group Chief Executive

September 2006
Demerger from WH Smith 39% market share

September 2008
£459m contract wins from publishers
55% market share

March 2009
Acquisition of Bertram Books

August 2010
Integration of Dawson News complete

August 2011
Acquisition of Dawson Holdings PLC Expansion into academic books
Now operating in 102 countries
New digital capability

April 2012
Acquisition of The Consortium — Immediately accretive acquisition in large and growing education and care markets

June 2012
Acquisition of Houtschild — expanding geographical footprint in academic books

August 2012
Secured new News International contract to 2019

Financial Performance

	2012 £m	2011 £m	Change	Five year record*	CAGR*
Revenue: Statutory	£1,804	£1,734	↗4.0%		↗10%
Operating Profit: Underlying	£51.2	£41.7	↗22.8%		↗9%
Statutory	£40.3	£35.2	↗14.5%		
Profit before tax: Underlying	£47.5	£38.6	↗23.1%		↗10%
Statutory	£36.6	£32.1	↗14.0%		
Free cash flow	£27.2	£22.5	↗20.9%		
Net debt	£100.5	£63.3	↗58.8%		

Returning value to shareholders

	2012	2011	Change	Five year record*	CAGR
Basic EPS: Underlying	19.9p	15.5p	↗28.4%		↗8%
Statutory	15.2p	12.1p	↗25.6%		
DPS	8.6p	8.0p	↗7.5%		↗6%

* Underlying

Our Business

At a Glance

Smiths News

Smiths News is the UK's leading newspaper and magazine wholesaler with a 55% market share

The business serves 30,000 customers from 48 distribution centres across the UK The business leverages its skills in people, processes and technology to be a leader in time sensitive logistics in large and resilient markets

Contribution to the Group

Divisional Revenue	Operating Profit	% of Group Operating Profit*
£1,571m	£39m	72.2%
1.9%	2 6%	

2012 Highlights

- Sales within strategic range
- 2 6% operating profit growth to £39m
- £5m cost efficiencies achieved
- News International contract win to 2019 secures £200m revenue

Sales by type %

Key statistics

- 30,000 customers
- 48 distribution centres
- Over 3,900 employees

Pro forma including an annualised £6 4m Education and Care operating profit

For further information see our website at **www smithsnews co uk**

Bertrams

Bertrams is a leading distributor of physical and digital books serving 3,000 customers in the UK and internationally.

Based in Norwich, Bertrams has a range of 4 million physical titles, 220,000 physical books in stock and a database of 215,000 academic digital titles The business supplies independent bookstores, retailers, online retailers, public libraries and academic institutions in 102 countries

Contribution to the Group

Divisional Revenue	Operating Profit	% of Group Operating Profit*
£174.3m	£6.8m	12.6%
31.2%	83 8%	

2012 Highlights

- Successful migration of Dawson Books to Norwich realising scale efficiencies
- UK sales ahead of consumer market
- Strong international sales
- Acquisition of Houtschild
- Digital sales growing 44%

Sales by type %

Key statistics

- 3 000 customers
- 4 distribution centres in the UK, France, Spain and the Netherlands
- Representation in 39 countries
- Over 600 employees

Pro forma including an annualised £6 4m Education and Care operating profit

For further information see our website at **www bertrams com**

The Consortium

The Consortium is a leading distributor of educational consumable products.

Headquartered in Trowbridge, The Consortium has a product range of 40,000 SKUs supplied from catalogues and a full online offering The business has over 30,000 customers and operates in the large and structurally growing education and care markets

Contribution to the Group

Divisional Revenue	Operating Profit	% of Group Operating Profit*
£26.5m	£3.6m	11.9%
8 1%	9 7%	

2012 Highlights

- Scale business acquired — pro forma revenue £64m, EBIT £6 4m
- Growth in all key segments
- WMS integration progressing well
- Contributing 8% EPS accretion
- Strategic and cultural fit

Sales by type %

Key statistics

- 30,000 customers
- 2 UK distribution centres in Trowbridge and Shrewsbury
- Over 340 employees

Pro forma including an annualised £6 4m Education and Care operating profit

For further information see our website at **www theconsortium com**

Media & Marketing

Dawson Media Direct supplies newspapers, magazines and in-flight entertainment technology and content to over 30 airlines in 52 countries. MMC provides UK fulfilment solutions

The business has an enviable portfolio of blue chip airline and rail customers It has airside access in 52 countries with hubs in eight countries globally The business is also an industry innovator in in-flight encryption and hardware and digital entertainment solutions MMC provides B2B and B2C fulfilment services, covering mainland UK from two UK locations

Contribution to the Group

Divisional Revenue	Operating Profit	% of Group Operating Profit*
£32.4m	£1.8m	3.3%
2 9%	8.8%	

2012 Highlights

- New and renewed print contracts
- Operational efficiencies realising scale benefits
- Launch of online content application

Sales by type %

Key statistics

- 30 airlines in more than 52 countries
- 8 global gateway hubs
- 2 UK fulfilment centres
- Over 200 employees

Pro forma including an annualised £6 4m Education and Care operating profit

For further information see our website at **www dawsonmediadirect com**

Our Business

Reasons to Invest

The market leader

- No 1 in newspaper and magazine distribution with a 55% market share
- A leading distributor of consumer and academic books in the UK and a growing player in international and digital markets
- A leading distributor of educational consumable products in large and growing markets
- Continuous investment underpins sustainable cost efficiencies

Underpinned by strong financials

- Underlying PBT growth 10%[1]
- Cash generative, delivering £142m since demerger[2]
- Average net debt ratio to EBITDA 1 3x[3]
- £47 5m cost savings since demerger[2]

Committed to growing our business

- Sustainable profits in newspaper and magazine division
- Successfully diversified through acquisition of Bertrams, Dawsons and The Consortium
- A balanced portfolio of four divisions, each with clear growth plans
- Emerging player in international and digital markets

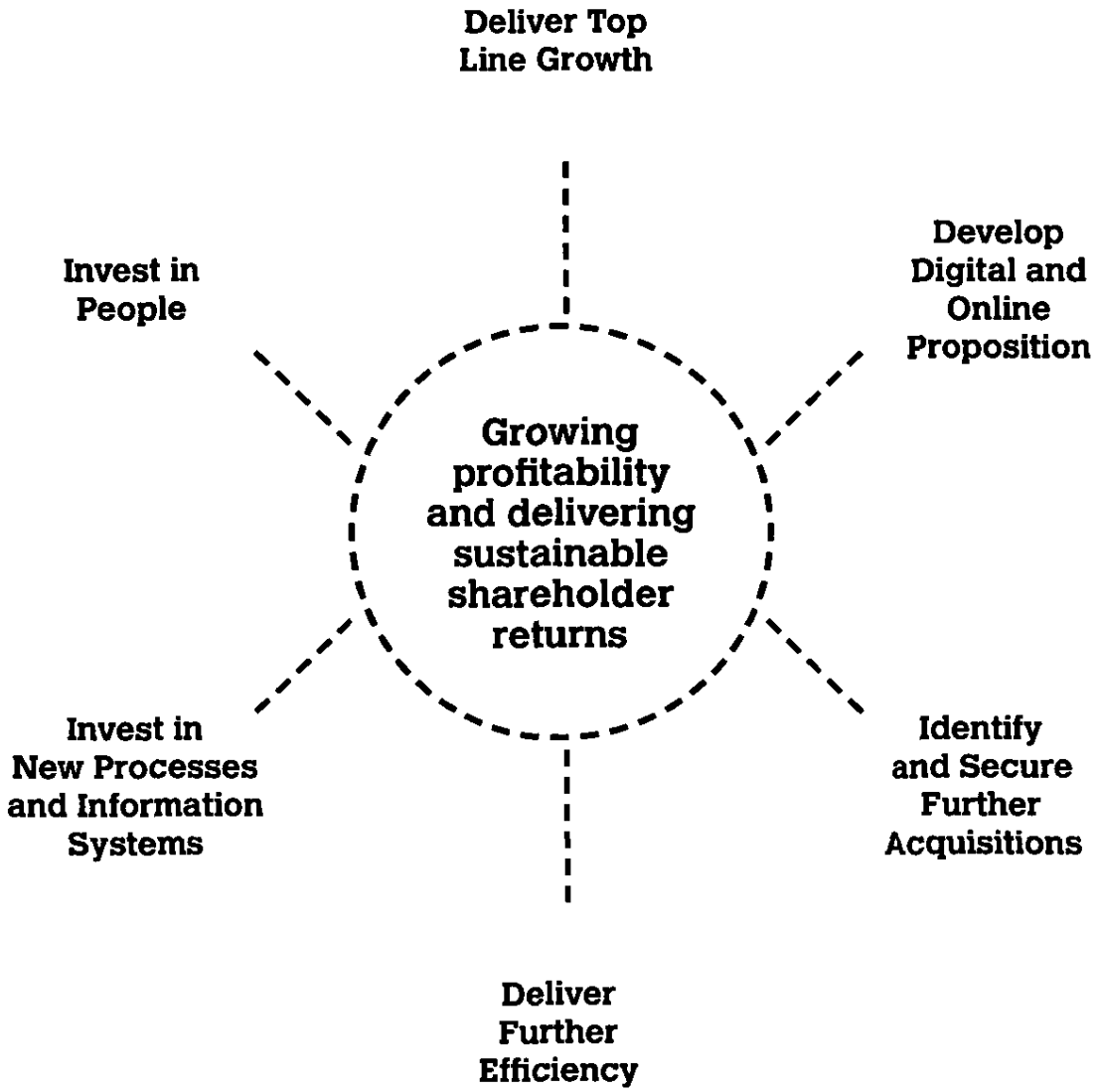
Consistently returning value to shareholders

- Share price +39% since the start of the year[4]
- Cumulative basic EPS of 78 4p[2]
- Cumulative DPS of 43 9p[2]
- Dividend growth 6%[1]

1 5 year compound annual growth rate 2008 – 2012
2 Cumulative since demerger 2007 – 2012
3 5 year average 2008 – 2012
4 Based on an opening share price of 83 7p on 1 September 2011 and a closing share price of 116p on 31 August 2012

Our Strategic Aim

A market leader in chosen specialist distribution categories



Sustainable profits in newspaper and magazine division

A balanced portfolio of four divisions, each with clear growth plans

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Our Performance

Group Chief Executive
Operating Review

Mark Cashmore

'We have delivered strong profit growth in all our operating divisions. Our strategic targets have been met and the acquisition of The Consortium gives the Group access to new and growing markets.'

Mark Cashmore Group Chief Executive

GROUP **Revenue**

£1,803.9m

(2011 £1,734 4m)

GROUP **Operating Profit**

£51.2m

(2011 £41 7m)

2012 Highlights

Strong financial performance across the Group

Growth and progress in all divisions

Successful diversification into the education and care sectors

All key targets achieved

Increased shareholder returns

I am delighted to report another positive performance by the Group Despite tough market conditions and the background of a volatile economic climate, we have delivered strong profit growth in all our operating divisions Our strategic targets have been met and the acquisition of The Consortium in April 2012 gives the Group access to new and growing markets The Group is stronger than ever and well positioned for further progress

Underlying operating profit for the Group was £51 2m, an increase of 22 8% This was achieved through a combination of new revenues, planned efficiencies and ongoing cost control – all of which will continue to flow through to future years Free cash flow of £27 2m (2011 £22 5m) is an excellent performance and supports an increase in the full-year dividend to 8 6p (2011 8 0p)

Overview

Smiths News remains the largest contnbutor to Group revenues and profits Whilst the newspaper and magazine market continues to be challenging, revenues were within our strategic forecast and planned cost efficiencies compensated for weaker sales The new extended contract with News International announced in August 2012 (worth in excess of £200m sales p a) provides a solid foundation for our network through to and beyond 2019 and will allow us to plan investments and further efficiencies It is clear that top line growth in these markets will not be possible, but through a combination of further efficiencies and new revenue streams we are confident that Smiths News' contnbution to the Group will be sustained over time

Bertrams had a strong year, benefiting from the acquisition of Dawson Books in August 2011 By supplying a wide range of customers and segments, the business is well positioned to respond to changes in the books market Bertrams continues to perform ahead of UK consumer book sales, with additional growth this year in library sales and international markets Sales of ebooks to academic libraries grew by 44% and we are investing further in our digital capability Operationally, the new management team has delivered the integration of Dawson Books and closure of Dawson Holdings' head office, with the minimum of disruption to customers, planned efficiencies of £2 5m were fully achieved and we are on track to make further progress in the coming year

Our acquisition of The Consortium was the result of an extensive review of many specialist distribution markets and was particularly attractive as it met all of our pre-determined criteria I am pleased with the decision and in the short period since taking ownership it is already clear the business will be a significant part of the Group's future The Consortium's operation closely matches our skills and competencies, as does its culture of customer service backed by unrivalled expertise But most importantly, its core markets of education and health care are growing and are expected to continue to grow over the medium to long term, with further opportunities for market leaders, such as The Consortium, to consolidate their share and win new business

The Media & Marketing division has won new contracts, grown sales with many long-standing customers and increased its profit in our first full year of ownership DMD, our airline and in-flight entertainment operation, has proved a useful addition to the Group, providing services to publishers that complement those offered by Smiths News

Strategy

Smiths News PLC is now well established as a leading specialist distnbutor operating in a range of carefully chosen markets Our progress this year means that nearly 30% of the Group's underlying profit is now generated from activities outside of newspaper and magazine wholesaling and our objective is to generate at least 50% of total underlying profit from activities outside our newspaper and magazine wholesaling business by 2016 We plan to continue to grow profit by harnessing the skills and competencies that are common across the Group

The Group is able to give each of its business units access to resources and investment that would not be possible as stand-alone companies By leveraging economies of scale and sharing skills in areas such as information technology and customer relationship management, the business units are able to build competitive advantage and more quickly bring new products and services to market

All our businesses strive to achieve a reputation for expertise and leading service The Group strategy is to underpin this with attractive economics, giving both customers and suppliers a tangible reason to support further growth

We intend to achieve our financial and strategic targets by a combination of growing market share, winning new revenues, investing in service and delivering sustainable cost efficiencies We will also remain alert to further acquisition opportunities that offer us access to new specialist distnbution markets, which complement our current business units or from which we can employ our skills and competencies to deliver a competitive advantage

Progress against strategic goals

In last year's annual report, the Group set out five strategic targets, all of which have seen excellent progress

Operational efficiencies

To deliver further operational efficiencies across all Group businesses

The Group achieved £7 5m of cost efficiencies in the year In Smiths News, we further rationalised our network with consolidation in Birmingham and the North West, supported by central savings following an organisation review The integration of Bertrams and Dawson Books has been delivered to plan and the expected efficiencies are now being realised

Integration of Dawson Holdings PLC

To swiftly integrate the Dawson businesses into the Group, maximising synergies whilst retaining the strengths and values that create commercial advantage

The integration is complete and a new management team is in place across the combined Bertrams division With a strong commercial focus the business has seen growth in academic e-books, international markets and public library sales

Our Performance

Group Chief Executive Operating Review continued

Further acquisitions

To further diversify the Group by making at least one acquisition in the specialist distribution market.

The acquisition of The Consortium in April 2012 has diversified the Group by adding a strong foothold in Education and Health Care markets to complement our leading positions in Newspapers, Magazines and Books In June 2012, the acquisition of Houtschild Internationale Boekhandel in the Netherlands further strengthened Bertrams' position as a leading supplier to academic libraries in European markets

Operating Structure

To implement a revised operating structure comprised of individual business units reporting to a Group Executive.

A new operating structure was established in May 2012 The Group now operates with four independent divisions supported by Group-wide services and overseen by a Group Executive Previously the Executive team of Smiths News oversaw the provision of Group services and performance of the other divisions The new structure has a clearer division of responsibilities This approach allows the necessary focus and expertise in each operating division whilst maintaining the overall efficiency and resource sharing that the wider Group enables

People

To support our strategy by improving the long-term performance, capability and engagement of our people

We continue to invest in people at all levels of the business The new Group structure was supported by considerable investment in senior management, ensuring we have the best possible talent in our leadership roles Our Talent Strategy is a priority of the Group Executive and our 2012 staff engagement survey was the widest and most comprehensive the Group has conducted with the results showing high levels of engagement despite the unprecedented change over the last two years

Strategic Goals

The Group is planning to make progress in each of its business units, increasing or maintaining market share and profitability across all core markets

The strategic priorities of each business unit are set out in the following pages of this report (page 18 to page 29)

In support of these goals the Group's medium-term strategy plans are to

- Deliver top line growth by increasing our market share, winning new contracts and developing new products and services for our customer base
- Develop digital and online propositions that will complement the greater share of our business which we anticipate remaining in print and physical products
- Identify and secure further acquisitions that will complement our existing business units and give access to new specialist distribution markets
- Deliver further efficiencies across the Group, continuing our programme of cost control, re-engineering, and continual improvement in operational standards
- Invest in new processes and information systems to further improve the standard of operational delivery and customer experience across all business units
- Maintain a competitive advantage through our people by making further investments in the training and development of staff at all levels

Staff

If a defining characteristic of the Group is its expertise in specialist markets, then it is our people who make that possible The Group now employs approximately 5,100 people (2011 5,000) and is proud of its long history of being regarded as a responsible and respected employer

We aim to offer satisfying careers, with opportunities to progress at all levels and in all areas of the Group We take pride in appointing from within, though we also recognise that outside experience can add strength and bring fresh ideas and perspectives

Developing talent is central to our approach The Group invests in a training and development programme, offering structured courses and bespoke programmes that strengthen existing teams and underpin our competitive advantage Those who show ambition and capability are encouraged with a structured pathway to more senior roles

In Smiths News, our award-winning apprentice scheme has been a great success with nearly 40 participants over a three year period moving into their first management roles We plan to continue and develop the programme, recognising that many young people in particular are looking for work based development as an alternative to formal academic qualifications The Graduate programme offers a potential fast track to more senior roles and it is

pleasing that so many of our early participants are now fully established in positions as varied as Operations, Commercial and Human Resources

We are also delighted with the skills and commitment of staff joining from our acquired businesses, it is clear that in the vast majority of cases our values and behaviours have proved highly compatible This is no surprise as one of our priorities in evaluating any opportunity was the underlying culture of management and its people

We encourage and motivate our staff so that they can perform to the best of their ability Recognising and rewarding their individual performance plays a big part in this Part of the way that we achieve this is through employee engagement, where we strive to keep our people well informed of the performance and objectives of the Group through personal briefings and email Furthermore, the Group's open management style encourages employees to contribute to the development of the business We also offer employees 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 and approximately 500 employees participate in this Scheme (2011 550)

The Board also 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 from disabled people Should an employee become disabled when working for the Group, efforts are made to continue his/her employment and retraining is provided if necessary

Our staff engagement survey, conducted in May 2012, returned an outstanding response Over 83% of staff gave their feedback on a range of issues, including leadership style, motivation, pay and conditions, workload, health & safety, goals and objectives As with all large companies, there are areas of excellence and pockets which need improvement — but the overwhelming response shows that staff are highly engaged and aligned to the goals of the Group Following this survey, we have held feedback sessions involving managers and workplace teams at all locations Every location and workplace team has its own action plan, and at a Group level we are responding to the wider issues by incorporating staff feedback into our plans, policies and procedures

Of course, a strong team spirit is about more than just the workplace We encourage our staff to become involved in their communities and in supporting charities which matter most to them Our Community Week initiative was another huge success, with participation across every location in the United Kingdom, raising over £102,000 for charities Just as importantly, it allowed staff to spend time together in a different context, breaking down barriers and creating memories and networks that have a legacy beyond the initial activities More details can be found in the corporate responsibility section of this report on page 45

Corporate responsibility

The Group takes a positive approach to corporate responsibility, recognising that responsible business practice benefits 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 45 of this report and on our website www smithsnews co uk

Outlook

The Group's medium-term outlook remains positive and we have a clear strategic vision to grow market share and increase profitability Our diversification strategy is well under way and we are now targeting for 50% of Group profits to be generated from activities outside of newspaper and magazine wholesaling by 2016

Within Smiths News we remain confident that the combination of network rationalisation and service excellence will allow the Group to generate significant cash flow whilst maintaining current levels of profitability We have announced a further £15m of cost savings which underpins our confidence in the performance of this division

Bertrams continues to trade ahead of UK market trends and we are pursuing a number of initiatives to drive medium-term growth targets Our previously stated targets of £200m of sales and £10m of profits by 2014 remains, and we expect our faster growing digital and international segments to help achieve those targets

The Consortium continues to trade strongly in both education and care markets and we have plans to further increase share and expand into new markets Top line revenue growth will be supported by the integration of WMS and an ongoing programme of investment which underpins our belief that this business can grow organically by c 10% per annum

The Media & Marketing division has opportunities for growth and expansion in the supply of both print and digital content to airlines, we are targeting 10%–20% growth per annum

The Group has started FY2013 trading in line with forecasts, and remains on track to grow profits in the current financial year in line with market expectations It is with such confidence that the 8% dividend increase is proposed

Our Performance

Smiths News
Divisional Review

KPI Revenue

£1,570.7m

(2011 £1,600 7m)

KPI Operating Profit

£39.0m

(2011 £38 0m)

Highlights

- 2 6% profit growth to £39 0m
- £5m efficiencies achieved
- Flagship depot in Birmingham opened
- News International contract secured

Showcasing our Expertise

Smiths News' state-of-the-art distribution centre

In March, Smiths News opened their flagship distribution centre in Birmingham Largest of all 48 distribution centres, the purpose-built centre is ideally located at Elmdon Trading Estate, which is close to the M42 and Birmingham's city centre.

Each week, 2 2 million newspapers and 1 1 million magazines are delivered to 2,000 retailers across Birmingham, Coventry and Redditch The depot has the latest technologies including a walking floor which has reduced the mileage for transporting waste, reduced CO_2 emissions and increased the amount of recycling Six months on, David De Souza, House Manager said 'This purpose-built depot allows us to reach more customers and helps us provide a better service to our customers It's an excellent facility for our staff and contractors to work in '

For further information see
our website at www smithsnews co uk

Smiths News improved its profits despite declining sales, driven in no small part by outstanding cost efficiencies, recording the fourth consecutive year of growth Underlying operating profit increased by 2 6%, to £39 0m (2011 £38 0m), as a result of implementing further efficiencies and the full year impact of prior year initiatives and despite declining sales We made excellent progress with the consolidation of our network and, in August 2012, agreed a new extension to our contract with News International that secures over £200m of annual revenues from their titles through to 2019

Markets

Newspaper sales revenues declined by 2 1% with Daily titles performing more strongly than Sundays In February 2012, the launch of a Sunday edition of the Sun helped compensate for the loss of the News of The World in July 2011 but intense competition and promotion in the Sunday market has depressed cover prices as publishers look to protect sales volumes

Magazine sales declined by 6 6% with monthly titles showing more resilience than weeklies One-shot sales were boosted by £7m, as a result of the Jubilee, Olympics and Euro 2012 football championships

The newspaper and magazine markets remain large and relatively stable Our strategy acknowledges the long-standing trend of declining sales volumes, being partly offset by cover price rises, and we plan accordingly Underlying sales remain within our medium-term strategic forecast which anticipates sales declining by 3% to 5% per annum

Progress

Service and efficiency are the twin tracks of Smiths News' strategy to grow profit and maintain its market leading position This year £5m of cost savings were achieved across the network, bringing the total savings achieved over the last two years to £25m — this means we are clearly on track for the previously announced target of £30m over three years

Reconfiguring our network is an ongoing priority that will result in sustainable efficiencies and deliver improved service In March 2012, we opened a new flagship depot in Birmingham, consolidating five previous facilities into one 55,000 sq ft unit, serving over 4,000 customers Now fully operational, our Birmingham depot is a model for future network investments The additional space and state-of-the-art facilities have improved operational standards and will reduce operating costs over time We have made a similar consolidation in the North West, merging our Manchester and Stockport depots into one unit A number of smaller network changes were implemented at Milton Keynes, Bristol and Crawley and we ended the year with 48 depots versus 53 in September 2011

Publisher awarded distribution contracts determine the territories in which we operate, we aim to secure the highest level of synergy which maximises efficiency and provides retail customers with a single supplier of newspapers and magazines In August 2012, we agreed a new contract extension with News International, increasing our market share of these titles from 38 6% to 48 6% The contract, worth over £200m p a in sales revenues of their titles, is an important foundation for our future plans It gives us greater clarity of our network requirement through to 2019 and beyond and will underpin future investments to improve service and drive greater efficiencies

Our strategy to deliver the demonstrably best service to retailers and publishers has underpinned our market share gains over recent years Independently conducted surveys continue to show that Smiths News has a clear lead over competitors and our plans recognise this difference must not be compromised The Key Performance Indicators (see table on page 20) continue to show a level of accuracy and delivery timeliness that can only be achieved with a clear focus and willingness to continually improve

In May 2012, following the move to a Group Structure, Jonathan Bunting was promoted to Managing Director, Smiths News Supporting Jonathan is a new senior team which blends industry experience with new talent The balance reflects the priorities of the business, building on a strong core, maintaining our leadership and excellence — and yet constantly challenging, finding new ways to improve and prosper

Our Performance

Smiths News Divisional Review continued

Current events often have a significant impact on Smiths News and this year was no exception In July 2012, the Olympic Games presented a unique logistical challenge to the entire industry, with security requirements disrupting delivery times and vehicle routing across London and other key venues Working with publishers and the industry's Olympic Distribution Steering Group, Smiths News ensured that newspapers and magazines were available throughout the Games, with minimum disruption to retailers — even those near to key locations The commitment of our staff during this period was, as always, second to none

Future plans

Looking ahead we will invest to maintain our leadership in service and efficiency We plan to

- invest in service delivery, ensuring we maintain our clear lead in performance with publishers and retailers,
- further consolidate our network, moving to fewer regional hubs supported by smaller, local distribution depots,
- work with industry partners in making a step change to operating processes that will reduce costs and improve service,
- re-secure our publisher contracts as they come up for renewal, and
- develop new revenue streams from products or services which complement our operation, skills and competencies

KPIs

On time delivery (RDT*)	97 2%	97 6%
Newspaper pack accuracy	99 8%	97 8%
Newspaper returns collection	99 0%	98 9%
Magazine pack accuracy	99 7%	99 6%
Magazine returns Processing accuracy	100 0%	100 0%

* Required delivery time

Showcasing our Expertise

The Group wins top Business award

In June, we were awarded the prestigious West of England Business of the Year Award — the region's most impressive business accolade.

We outshone the five other businesses who competed for the award in the category for companies turning over more than £25m a year or with over 100 employees The award recognises our operational excellence, consistent strategic progress across the UK as well as our strength and contribution to the West of England

Nick Morgan, a partner at PwC and chair of the judges, said 'Smiths News PLC impressed the judging panel with their sustained profit growth, diversification of the business and the strength of its management I was delighted to present them with the winner's trophy'

For further information see our website at **www smithsnews co uk**

Bertrams
Divisional Review

KPI Revenue

£174.3m

(2011 £132 9m)

KPI Operating Profit

£6.8m

(2011 £3 7m)

Highlights

- Integration of Dawson Books
- UK sales ahead of consumer market
- Strong international sales
- Digital sales growing at 44%

Showcasing our People

Developing potential

Our Talent Strategy ensures we have the right people in the right roles We want to develop our employees and help them reach their full potential.

Darren Turner, one of our longest serving members of staff, has had a successful career with the Company In August, he was appointed Operations Director at Bertrams Darren started working for Smiths News 25 years ago, until he was seconded to Bertrams in September 2011 Darren's first role at Smiths News was as a packer/driver and has since held various positions within the Company, working in sales and marketing roles including managing a Smith News depot As Operations Director, Darren is responsible for delivering the strategic priorities across the Bertrams Group

For further information see
our website at **www bertrams com**

Our Performance

Bertrams
Divisional Review continued

Overview
In a year of considerable change, Bertrams has made good progress

Underlying operating profit of £6 8m (2011 £3 7m) is up 83 8% on turnover of £174 3m (2011 £132 9m) benefiting from the acquisition of Dawson Books

The UK wholesale operation performed well ahead of the UK consumer market and our public library business increased sales and won new contracts International sales continue to grow and represent a significant future opportunity In June 2012, we acquired Houtschild Internationale Boekhandel, a specialist distributor based in the Netherlands, further strengthening our position in European academic and international markets

A new leadership team is in place at Bertrams, headed by Graeme Underhill, formerly Operations Director at Smiths News Following the integration of Dawson Books a single executive team now has management responsibility across all of the trading divisions within Bertrams, ensuring a coordinated strategy across the various sectors

Markets
The UK consumer books market is estimated to be worth £1 5bn In recent years, the growth of internet retailers and ebooks has created significant flux, as the market adjusts to the impact on demand and consumer purchasing patterns Bertrams is well positioned to benefit from these changes, operating across a range of sectors within the books market — UK trade, academic and public library as well as international, across both printed and ebook formats

Sales of printed books to consumers continue to decline with the UK consumer market down *circa* 7 0% in value This headline figure masks wide variations in the fortunes of traditional and online retailers, price discounting by high street and internet retailers further complicates year-on-year comparisons Consumer ebook sales have become more established and are growing rapidly, particularly within fiction, and our forecasts anticipate further growth Sales to public libraries are not included in the UK consumer markets — sales in this sector have recovered following a period of great uncertainty in 2011 Academic library markets are similarly separate from consumer sales and we estimate this sector to be broadly flat on the previous year However, our sales of ebooks to academic institutions continue to grow at *circa* 44% per year

Though no independent measure is available, English language international sales are recognised by the industry to be in structural growth

UK Wholesale
Bertram Books, our UK wholesale operation, performed well in what are challenging markets for traditional booksellers Sales increased by 2 5% in comparison to a 7% decline in the value of the UK consumer market This performance reflects our strong share of internet customers and a balanced portfolio of retailers

The Norwich operation is the central hub of Bertrams, serving not only the UK wholesale operation, but also international sales, as well as our public and academic library businesses Efficiencies in the warehouse increased productivity and contributed to profitability improvements across all sectors

International

International sales grew by almost 70% largely as a result of the acquisition of Dawson Books (on a like-for-like basis 12 3%) and now represent 23% of Bertrams' sales mix This reflects a structural growth in demand for English language books abroad (particularly in the emerging economies of Asia and the Middle East) and spans both the academic and mainstream markets

Bertrams now has sales representation in 39 countries and trades regularly with customers in over 102 international locations A new office in Abu Dhabi was opened in March 2012 Looking ahead we believe international sales will continue to represent a strong opportunity and we plan further investments in our sales presence and customer offer

Public Libraries

Public library sales have increased, on a like-for-like basis, by 11 2% after a difficult prior year following the reductions in public sector budgets Bertram Library Services increased sales from the net impact of contracts won and lost, including new contracts in Dublin, Norfolk and with the Central Book Consortium Service to customers has improved following changes to the processing at Norwich Looking ahead, there are a number of contract opportunities in the coming year and we will be focusing on further improvements to our customer offer and service delivery

Digital sales

Our ebook platform ('Dawsonera') is now firmly established as one of the leading digital platforms serving the worldwide academic market Our sales grew by 44% reflecting the rapid growth of this emerging market sector

Dawsonera has *circa* 215,000 titles on its core database from over 450 of the world's leading publishers and our range continues to grow rapidly Our ability to offer universities and institutions a combination of printed and digital books gives a competitive edge to our service, and we plan further improvements in both the database of titles and user experience Dawsonera is attractive to international customers too and in May 2012 we reached agreement with China National Publisher Import and Export Corporation (CNPIEC) which allows us to sell digital books to Chinese universities We believe further opportunities will follow the overall growth in international sales

Academic

The academic books market remains solid despite recent changes to university funding During the year, new contracts were won with the University of Kent, Leicester University, St George's Academy and Botswana University of Science and Technology

The integration of Dawson Books into Norwich is now complete The specialist servicing of academic and public library books and the integration of Dawson Books' former warehouse in Northamptonshire was completed in April 2012 Importantly, we have maintained our reputation for service excellence, with minimal impact to customers during the changeover

In June 2012, Bertrams acquired Houtschild Internationale Boekhandel, a specialist academic supplier based at Rijswijk in the Netherlands Houtschild has an enviable reputation for quality and a customer base that spans Northern Europe with particular strength in the Netherlands, France and Germany The business is an excellent fit to our academic operation and will facilitate the expansion of printed and ebook sales to international customers Houtschild will continue to operate from the Netherlands and will trade under its own name

Future Plans

Bertrams has a positive outlook, with clear plans for growth in sales and profits, to achieve our previously stated aim of £200m revenues and £10m profit contribution by 2014

Our strategy for growth includes

- ensuring we offer the widest range of services and best customer experience in all our market sectors — delivered with unsurpassed operational efficiency,
- expanding our international sales of both printed and digital books, targeting key emerging markets and investment in sales representation and physical presence,
- carefully assessing future acquisition opportunities,
- further investment in our digital platform to ensure it maintains and increases its position as a leading academic platform,
- growing market share by winning new trade customers and securing contracts from both public and academic libraries, and
- delivering further operational and buying efficiencies from our scale facility at Norwich

KPIs

BERTRAMS	2012	2011
Availability of core titles in range	96 0%	89 0%
On-shelf stock integrity	99 6%	99 6%
Same day despatch	100 0%	100 0%
Delivered next day	96 3%*	97 9%

* Reduction has been driven by the carrier performance

Our Performance

The Consortium
Divisional Review

KPI Revenue

£26.5m*

(2011 £nil)

KPI Operating Profit

£3.6m*

(2011 £nil)

* Represents post-acquisition contribution from 23 April 2012

Highlights

Acquired in April 2012

Strong trading performance since acquisition

Growth in all key segments

WMS integration progressing well

Excellent strategic and cultural fit

Showcasing our Expertise

Education Supplier of the Year award

The Consortium was awarded the Education Resources Award for Supplier of the Year for an unprecedented third year in a row in 2012.

The awards, organised by the British Educational Suppliers Association (BESA) and judged by teachers and education specialists, recognise the high quality resources, establishments and people in education

The Supplier of the Year award highlights an organisation that provides educational establishments with high quality, safe products appropriate to their everyday teaching and learning needs The judges' comments included 'Once again we were impressed by how this company redevelops its range of products to meet the needs of its customers It continually tailors its catalogues to make buying easy'

For further information see our website at **www theconsortium com**

In what was a transformational year, The Consortium grew its sales and profits, increased market share, secured the acquisition of West Mercia Supplies (WMS), and in April 2012 was itself acquired by Smiths News PLC

In the five months since we acquired The Consortium, we have been extremely pleased with both the financial performance and opportunities that it brings to the Group Trading has been ahead of expectations and we have made good progress on the integration of WMS into The Consortium We have already provided operational expertise and investment that will help drive future growth in the coming year

As part of Smiths News PLC, The Consortium will benefit from the wider resources, skills and experience of the Group Following the acquisition, Melanie Teal, Managing Director of The Consortium, has also joined the Group Executive The business has ambitious plans to increase sales and profits, capitalising on forecast growth in both the education and care sectors

Note. The narrative below includes progress and developments in The Consortium over the 12 months to 31 August 2012 This provides context to more recent progress since acquisition by Smiths News PLC in April 2012

Markets

The education resources market is in structural growth, driven by pupil numbers and spending characteristics In 2012, spending has remained stable with schools continuing to purchase everyday essentials and curriculum products (the core of The Consortium's range) despite some uncertainty over wider budgets Primary school spending has been buoyant throughout the year reflecting an increase in pupil numbers that is set to continue as increases in the birth rate feed through into school places

Looking more broadly, the move to academy status by over 2,500 schools has resulted in some changes to procurement cycles as a result of changes in their financial years Nevertheless, we believe underlying demand is unchanged For schools and nurseries, the likely changes to the National Curriculum in England and the new structure of the Early Years Foundation Stage will drive the need for resources Longer term, the increase in the birth rate and the raising of the minimum leaving age for education and training will help ensure continued growth in spending

The elderly care market continues to flourish The economic pressures being experienced by the public sector are offset by the long-term growth of the ageing population and consequent demand for both domiciliary and care home services The size of the market is expected to grow by over 3% per annum by virtue of the ageing population

Education

Education sales, including Early Years and representing approximately 80% of The Consortium's sales mix, performed strongly, through a combination of increased customer spend, contract wins and the benefit of sales through WMS

The education business continued to grow, with good progress in those areas where we operate public sector framework contracts, including Bristol, Dorset and Wales Significant new contracts were won with Wirral Metropolitan Council and Surrey County Council The benefit of sales from WMS is discussed in the section below

At the heart of The Consortium's success is a passion for customer service combined with expertise in product selection and presentation — together these bring to life the customer proposition of 'buying made easy' With over 40,000 product lines promoted through catalogues, websites and bespoke mailings, The Consortium offers a one-stop shop, making procurement simple, efficient and speedy

This year's customer survey results confirm our progress, with 93% of respondents stating we were a preferred supplier The survey provides real insight to customers' requirements and we use the responses to inform the development of our product ranges, catalogues and customer service

In March 2012, and for an unprecedented third year running, we were delighted to win the Education Resources Award for Supplier of the Year Commenting on the award the judges noted, *'Once again the judges were impressed by how this company redevelops its range to meet the needs of educators The Consortium continually tailors its catalogues to make buying easy and make budgets go further'*

West Mercia Supplies (WMS)

In April 2012, The Consortium acquired the education supplies and warehouse operation of WMS, based in Shrewsbury WMS was formerly a public sector buying organisation with a reputation for high levels of service, serving 7,000 education customers, primarily in the West Midlands

The combined businesses will benefit from greater scale, buying and back office efficiencies By adding The Consortium's wider range to that of WMS we will also improve the offer and service to all our customers Integrating the two operations in a way that maximises the benefits to customers is our number one priority for the coming year and the dual locations of Trowbridge and Shrewsbury will further support our customer offer

Our Performance

The Consortium Divisional Review continued

A year of sport

With such an incredible year for sport, The Consortium worked closely with customers in both the Education and Care Sectors to ensure they had the products they wanted to both celebrate the Olympics and engage those within their care in activities.

From bunting to javelins, pom-poms to basketballs, our range was developed further than ever this year and designed to get everyone involved We were also delighted to be involved in supporting the first Wiltshire and Swindon School Games — an event attracting over 3,500 young people representing some 100 schools Within education the spirit and values of the Olympics were cascaded throughout the Curriculum and the legacy of the 2012 games continues to offer opportunities for innovation and growth and it was fantastic to be part of this

For further information see our website at **www theconsortium com**

Care

Sales in healthcare increased by 23%, reflecting underlying growth in the sector In addition to increased demand from existing customers, we won contracts with two large care home groups worth over £500k in annual revenues

Despite the increasing role of larger groups, the healthcare market remains fragmented and has similar characteristics to the education sector — customers want a one-stop supplier for everyday essentials as well as larger items, backed by ease of ordering and excellent service

We plan to increase our sales activity in this growing sector through a dedicated telesales team and more targeted direct marketing

Future plans

There are exciting times ahead for The Consortium with significant opportunities in both education and healthcare We plan to

- integrate WMS within The Consortium, taking the best from both businesses and improving both our range and services to all customers,
- continue driving service and operational efficiencies to encourage a greater 'share of wallet' from existing customers,
- aggressively target new customers in both the education and healthcare sectors, focusing on those areas where The Consortium is already a well-known brand,
- increase the quality of our online offer and ordering service,
- maximise the opportunities of working in the Smiths News Group, including investment in people technology and logistics We will explore cross selling and purchasing opportunities across the Group, and
- carefully assess the opportunity for further bolt-on acquisitions

KPIs

CONSORTIUM	2012	2011
On time delivery	98 2%	98 0%
Stock availability	97 1%	98 4%
Customer service calls answered first time	98 1%	96 8%

Media & Marketing
Divisional Review

KPI Revenue

£32.4m

(2011 £0 8m)*

KPI Operating Profit

£1.8m

(2011 £nil)*

Highlights

New and renewed print contracts secured

New digital contracts with leading airlines

Process and security improvements giving competitive advantage

Operational efficiency improved

Showcasing our Service

'Team Talk' engagement survey

This May saw the completion of our first staff engagement survey in 3 years, and the first staff survey conducted across the Group

Using an independent company to manage the process gave us the confidential and impartial approach we needed to ensure staff felt confident enough to give us their views We launched the survey with a new name, 'Team Talk', and with a new emphasis on getting teams to talk We were delighted to have a response rate of 83% — our highest ever return

Results were announced in August, with locations receiving data packs and support materials outlining the headline results — all of which were shared with staff Following the results 'Team Talks' took place at a local level, with staff having the opportunity to review results, and discuss any areas for improvement Action plans for all areas of the business were written and our Group Executive were involved with the review of these plans

We also donated £1 to our corporate charities for every survey that was completed This resulted in almost £3,000 being donated to Whizz Kidz and Cancer Research UK

Our Performance

Media & Marketing Divisional Review continued

Overview

The Media & Marketing division has had a successful year, improving profits, winning new contracts and resolving a number of legacy issues arising from its previous ownership by Dawson Holdings PLC Underlying operating profit for the year was £1 8m

DMD, the largest contributor to our Media & Marketing division, provides print and electronic media to the travel market With operations in key locations supplemented by local partners throughout the world, DMD supplies over 30 airlines into more than 50 countries — it is also the exclusive supplier of newspapers and magazines to Eurostar

DMD continued to grow and develop its business in response to new technology and increased security requirements Key to success is a flexible and customer focused offer that combines traditional newspaper and magazine publishers with digital services via 'tablet' technology

MMC, the fulfilment and merchandising arm of our Media & Marketing division, returned a stable performance despite difficult market conditions

Markets

The market for rail and airline media is inextricably linked to wider economics of travel companies and particularly passenger numbers Although levels of economic pressure vary across the territories in which we operate, the overall sentiment during the year has been challenging and our travel and media clients have all, to varying degrees, looked to find efficiencies This is not always negative to our business, as the pressures on airlines, rail operators and content providers also create opportunities for outsourcing of services

The fulfilment and merchandising market is highly fragmented and variable Overall the market remains affected by the wider economy

Progress

DMD's strategy is to build the profitability of current operations with new contracts and in-fill existing routes In 2012, new and renewed contracts were secured with (amongst others) Cathay Pacific, US Airways, Delta Airlines and Air France Sales through major customers such as Ryanair also grew as result of supplying additional routes and better penetration of sales to on-board passengers

By its nature, DMD's operation is multinational and demands sound understanding of local business drivers in varied markets throughout the world To ensure we remain sensitive and aligned to these local demands, we operate facilities in a number of locations globally An example of the benefit of this approach was the renewal of our important contract with Cathay Pacific managed through our Hong Kong office Through the Cathay regional subsidiary Dragon Air, we have access to the developing Chinese market and are working with China National Publisher Import and Export Corporation to establish our service more firmly in the region, including the supply of content to domestic Chinese airlines

Improvements to processes at our airline and travel operations have been made following increased security requirements at UK and international travel points During the year, DMD revised its UK operating processes to introduce on-site Department for Transport approved security checking of all content supplied through London Heathrow DMD is the only media supplier in its market space with this capability, giving it significant operational advantages in time sensitive distribution to our airline clients

In a move to further improve service and cost, the day-to-day management of DMD's UK warehouse in Langley was passed to Smiths News in August 2012 Smiths News has the skills, systems and experience to improve productivity and standards, allowing DMD's senior management to focus on building customer relationships, international expansion and new contracts

Recognising that digital tablets offer a new opportunity, DMD (working through its joint venture business, Bluebox Avionics) has developed an offer to supply and service portable devices including Apple's iPad to airlines The market for these services is new and developing but early progress is encouraging with more than 5,500 iPads deployed, including contracts with Jetstar, British Airways and Thai Airways

Travel operators and publishers are continually looking at new and innovative ways to attract and satisfy customers In response, DMD launched Digiredoo, a media content application available to passengers in travel lounges and travel point Wi-Fi networks The service is currently on trial with Eurostar in Paris and London On roll-out it will be available to airlines, targeted at premium travellers using devices supplied by the airlines

Throughout the year we have supported MMC with management input and support from Smiths News, establishing greater operational control and improvements to processes In August 2012, a new management team was put in place, helping to ensure these disciplines remain a priority

Future Plans

We continue to see growth prospects for the Media & Marketing division and plan to win new contracts as well as build on the complementary nature these services have for current customers Key to success will be innovation, flexibility of service and dedicated customer focus

We plan to

- win new print contracts with airlines and rail operators, targeting those locations and routes with greatest synergy to current operations,
- further develop our digital services by developing offers for both the premium and digital travel market,
- roll out Digiredoo to airport lounges and develop the service to include Android and streaming versions, and
- further improve the logistics operation at both DMD and MMC, reducing costs, improving standards and ensuring they deliver higher levels of efficiency and customer service

KPIs

DMD	2012
On time delivery to caterers	98 05%
Aircraft deliveries on time	99 98%
Customer satisfaction	98 36%
Security compliance	100 00%
ABC* audit compliance	100 00%

* Audit Bureau of Circulations

Our Performance

Financial Review

Nick Gresham, Chief Financial Officer

'Consistently achieving our priorities ensures we continue to deliver strong financial returns.'

Nick Gresham Chief Financial Officer

Revenue

4.0%

to £1,803.9m

(2011 £1,734 4m)

Statutory PBT

14.0%

to £36.6m

(2011 £32 1m)

Underlying PBT

23.1%

to £47.5m

(2011 £38 6m)

Underlying basic EPS

28.4%

to 19.9p

(2011 15 5p)

Dividend per share

7.5%

to 8.6p

(2011 8 0p)

Free cash flow

20.9%

to £27.2m

(2011 £22 5m)

Group results

	FY 2012	FY 2011	Change
Underlying results			
Revenue	**£1,803.9m**	£1,734 3m	4 0%
Operating profit	**£51 2m**	£41 7m	22 8%
Profit before tax[1]	**£47 5m**	£38 6m	23 1%
Earnings per share[1]	**19 9p**	15 5p	28 4%
Statutory results			
Revenue	**£1,803 9m**	£1,734 4m	4 0%
Operating profit	**£40.3m**	£35 2m	14 5%
Profit before tax	**£36.6m**	£32 1m	14 0%
Earnings per share	**15.2p**	12 1p	25 6%
Dividend per share	**8 6p**	8 0p	7 5%
Free cash flow[2]	**£27 2m**	£22 5m	20 9%
Net debt[3]	**£100 5m**	£63 3m	58 8%

The following definitions have been applied consistently throughout the annual report

(1) Underlying 2012 and 2011 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 and disposals the proceeds on the disposal of freehold properties, repayments of obligations under finance leases the repayment of bank loans EBT share purchase and non-recurring and other items

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

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

(5) Smiths News is also referred to as the Newspaper and Magazine wholesaling segment Bertrams including Dawson Books is also referred to as the Book wholesaling segment Dawson Media Direct (DMD) and Marketlink Marketing Communications (MMC) are also referred to as the Media & Marketing segment The Consortium or Hedgelane Limited is also referred to as the Education and Care segment

(6) Bertrams prior year revenues includes £131 8m for Bertram Books and £1 1m of post acquisition revenues for Dawson Books

(7) Full year pro forma is the contribution of acquired businesses to the results of the Group, as if the acquisitions had been made at the beginning of the year

The Group has delivered another year of strong financial performance across all of our financial Key Performance Indicators including underlying profit before tax (PBT) growth of 23% to £47 5m, earnings per share (EPS) growth of 28% and dividend growth of 7 5%

Since demerger, the Group has demonstrated consistently strong financial performance In each year since demerger, the Group has delivered over £20m in free cash flow (2012 £27 2m, up 21%), a cumulative total of £142m This performance has supported the business's ability to consistently return dividends to shareholders Six consecutive years of dividend growth has cumulatively returned 43 9p per share or £75 9m in cash

Our Performance

Financial Review continued

Profit growth across all divisions

	Smiths News	Bertrams	The Consortium	M&M	Group
Revenue					
FY2012	**£1,570 7m**	**£174 3m**	**£32 4m**	**£26.5m**	**£1,803.9m**
FY2011	£1,600 7m	£132 9m[5]	£0 8m	—	£1,734 3m
Change	(1 9%)	31 2%	—	—	4 0%
LFL[4]	(4 3%)	5 8%	—	—	—
Underlying Operating Profit					
FY2012	**£39.0m**	**£6.8m**	**£3.6m**	**£1.8m**	**£51.2m**
FY2011	£38 0m	£3 7m	—	—	£41 7m
Change	2 6%	83 8%	—	—	22 8%

Group revenues were £1,804m, up 4% predominantly as a result of the acquisition of Dawson Books (August 2011) shown in the Bertrams result and the acquisition of The Consortium (April 2012) Smiths News like-for-like revenues were down (4 3%) but within our stated medium-term forecast range of (3 0%) to (5 0%) Group underlying operating profit was £51 2m, up 22 8% with profit growth in all four of our divisions, demonstrating a combination of ongoing cost savings and integration to grow profit in our existing divisions and deploying financial resource effectively to acquire high quality businesses consistent with our long-term strategy

For the full year 2012, the mix of underlying operating profits outside of newspaper and magazine wholesaling was 28% (2011 91%) Following the acquisition of The Consortium, we are confident of achieving our previously stated target of 30% of profits from outside of newspapers and magazines wholesaling by FY2014 and have reset our aim to 50% by FY2016

Share price information

The closing market value of the listed ordinary shares at 31 August 2012 was 116 0p and the market capitalisation was £212 8m During the year, the market price ranged between 75 25p and 118 0p The market capitalisation ranged from £138 1m to £216 4m Over the period of review, share price appreciation was 39%

Smiths News PLC is listed on the London Stock Exchange FTSE Small Cap Over the period of review, the share price had outperformed the FTSE All Share Index by 32% The latest ordinary share price is available on our website www smithsnews co uk/investors/shareinformation/detailedshareprice

Acquisitions and Divestments

During the year we spent £40.1m on acquisitions which added £68m on a full year pro forma basis[7] to Group revenue and £6.6m to Group operating profit.

On 23 April 2012, the Group acquired Hedgelane Limited ('The Consortium') for a total consideration of £38m. This comprised an initial cash consideration of £32m and contingent deferred consideration payments in cash and equity up to September 2013 of up to £6m. Enterprise value (EV) was £44m, a multiple of 6.3x pro forma EBITDA and a post synergy EV/EBITDA multiple of 5.5x.

Separable intangible assets arising on the acquisition of £10.4m have been recognised and will be amortised on a straight-line basis over 11 years. We expect the amortisation charge in respect of this acquisition to be £1.0m in FY2013. The provisional fair value of assets acquired was £11.4m giving rise to £20.6m goodwill. £4.6m of acquisition related costs have been expensed to the income statement including acquisition costs and taxes of £2m and contingent consideration charges of £2.6m.

On 13 June 2012, the Group acquired Houtschild via Dawson Books Ltd, a subsidiary of Bertram Books Ltd. The consideration was £0.9m and net cash received was £0.2m. The provisional fair value of net assets acquired totalled £0.5m.

On 27 June 2012, the Group disposed of a 12.6% stake in eBooks Corporation for £1m. The profit on disposal was £0.5m.

Total amortisation of intangible assets expensed to the income statement in FY2012 was £2.1m comprising Bertrams £0.8m, Dawson Holdings £0.9m and Hedgelane Limited £0.4m.

Finance costs

Net finance costs were £3.7m (FY2011: £3.1m). Net bank interest and related expenses were £4.9m (FY2011: £4.3m) reflecting the increase in the level of borrowings from recent acquisitions. Pension interest credit was £1.2m (FY2011: £1.2m).

Finance costs are likely to increase marginally in FY2013 as a result of a full year of The Consortium funding.

Taxation

The Group's underlying tax charge was £11.4m. The effective underlying rate was 24.0% for the year (FY2011: 26.9%). After adjusting for the tax on non-recurring and other items of £2.3m (FY2011: £0.2m), the statutory income tax charge was £9.1m (FY2011: £10.2m), an effective rate of 24.9% (FY2011: 31.8%).

Non-recurring and other items

Non-recurring and other items totalled £10.9m before tax and £8.6m after tax for the financial year. Re-organisation and integration costs of £4.7m allow for the delivery of our £30m cost saving programme and £5m integration savings from the Dawson Holdings acquisition. In total, re-organisation and integration costs of £9.8m have been expensed in the last 2 years from a total expected cost announced of £10m.

Future costs of approximately £4m are expected in FY2013 to support delivery of a new cost savings target of an additional £15m by FY2015.

Acquisition costs of £4.6m relate to the acquisition of The Consortium. This comprises £2m of deal costs and taxes as well as £2.6m for deferred consideration sums charged to the income statement on a straight line basis over the period of deferral. Future costs of approximately £3m are expected in FY2013.

Amortisation of intangibles of £2.1m comprises £0.8m for Bertrams, £0.9m for Dawson Holdings and £0.4m for The Consortium. Future costs of approximately £3m are expected in FY2013.

EPS and dividend

	Underlying		Statutory	
	FY 2012	FY 2011	**FY 2012**	FY 2011
Profit after tax (£m)	**36.1**	28.2	**27.5**	21.9
Basic number of shares (millions)	**181.3**	181.4	**181.3**	181.4
Basic EPS	**19.9p**	15.5p	**15.2p**	12.1p
Fully diluted number of shares (millions)	**187.1**	184.3	**187.1**	184.3
Fully diluted EPS	**19.3p**	15.3p	**14.7p**	11.9p
Dividend per share	**8.6p**	8.0p	**8.6p**	8.0p

On an underlying basis, profit after tax of £36.1m resulted in an EPS of 19.9p, up 4.4p or 28.4% on prior year.

Including non-recurring and other items, statutory profit after tax of £27.5m gave an EPS of 15.2p, up 3.1p or 25.6% on prior year.

The calculation of diluted EPS reflects the potential dilutive effect of employee incentive schemes which accounted for 4.3m shares in FY2012 (2011: 2.9m) and 1.5m shares being the weighted impact of 4.5m deferred shares in relation to The Consortium deferred consideration (2011: nil) (see Note 10). Together dilutive shares increased the number of shares in FY2012 by 5.8m to 187.1m and resulted in diluted underlying EPS of 19.3p, up 4.0p or 26.1% on prior year.

Our Performance

Financial Review continued

The proposed final dividend for the year ended 31 August 2012 of 5 8p is subject to approval by the shareholders at the Annual General Meeting on 24 January 2013 and has not been included as a liability in these accounts The proposed dividend, if approved, will be paid on 8 February 2013 to shareholders on the Register at close of business on 11 January 2013

The total dividend for the year of 8 6p comprises the interim dividend of 2 8p and the proposed final dividend of 5 8p, a full year increase of 0 6p or 7 5% on prior year The Group has a strong track record of returning value to shareholders and at the year end share price of 116p represents a dividend yield of 7 4% Our dividend policy has increased dividends at a compound rate of 6% since demerger, returning 43 9p per share or £75 9m in cash over that period

Free Cash Flow

£m	FY 2012	FY 2011
Underlying operating profit	**51.2**	41 7
Depreciation & Amortisation	**6.9**	6 8
EBITDA	**58.1**	48 5
Working capital	**(9 1)**	(10 3)
Capital expenditure	**(5.1)**	(3 1)
Net interest paid	**(3 3)**	(4 9)
Taxation	**(8 0)**	(1 7)
Ongoing pension funding	**(6.8)**	(6 2)
Other	**1.4**	0 2
Free cash flow[2]	**27 2**	22 5

The Group continued to generate strong free cash flow, delivering £27 2m of cash, up 20 9%, and a cumulative £142m since demerger Key movements include

Working capital outflow of (£9 1m) (FY2011 (£10 3m)) results predominantly from an investment in inventory to support sales initiatives as well as the expected impact of timing of retailer receipts relative to the year end in Smiths News

Tax payments of (£8 0m) reflect a normalised cash tax charge for the year, FY2011 having benefited from a cash tax rebate of £2 8m

The Group does not expect there to be a material working capital outflow in FY2013 resulting in an expectation of delivering in excess of £30m of free cash flow

Net debt

£m	FY 2012	FY 2011
Opening net debt	**(63 3)**	(48 0)
Free cash flow	**27 2**	22 5
Dividend paid	**(14 9)**	(13 8)
Non-recurring items	**(10 3)**	(5 2)
New finance leases	**(1.6)**	(0 6)
Other	**(0.5)**	(0 3)
Acquisitions	**(37 1)**	(17 9)
Closing net debt	**(100 5)**	(63 3)
Comprising		
Gross debt	**(105 6)**	(67 5)
Cash held in local entities	**5 1**	4 2

As at 31 August 2012, net debt is £100 5m (2011 £63 3m) following £37m of net payments in respect of acquisitions and disposals in the year The net debt figure is a combination of £106m of debt and finance leases and £5m of cash held to finance local operations

The Group's borrowings are typically cyclical throughout the financial year and calendar invoicing versus 4/4/5 accounting means average annual net debt is approximately £25m higher than the year end position

Covenants
We remain comfortably within each of our banking covenants As at 31 August 2012, drawn facilities were equivalent to 1 6× net debt EBITDA ratio versus a covenant of 2 5× Interest charge was equivalent to 12 7× versus a covenant of 3 0× and fixed charge cover was equivalent to 4 8× versus a covenant of 2 5×

Bank Facilities and Treasury
The Group had £180m committed bank facilities in place as at 31 August 2012 (2011 £150m) This has reduced to £177m following a £3m scheduled repayment in September 2012 These comprise

- a £37m syndicated term loan through to November 2014 with scheduled annual repayments of £3m in September 2013 and £4m in September 2014,
- a £95m syndicated revolving credit facility maturing in November 2014,
- a £10m bilateral revolving credit facility secured on 3 June 2012 through to August 2014,
- a £15m bilateral invoice financing facility maturing in November 2014, and
- £20m of bilateral invoice financing facilities secured on 30 April 2012 maturing in November 2014

On a normal operating basis the Group's average annual debt was approximately £87m, resulting in average headroom of approximately £71m, throughout the year

The Group has a centralised treasury function to manage Group treasury risk with clear guidelines laid down by the Board Treasury's role is to ensure that appropriate financing is available for running the businesses of the Group on a day-to-day basis, allowing for investments and acquisitions whilst minimising interest cost No transactions of a speculative nature are undertaken Dealings are restricted to those banks with suitable credit ratings and counterparty risk and credit exposure is monitored frequently

Interest rate hedges are used to manage exposure to interest rate fluctuations As at 31 August 2012, 60% of the Group's borrowings were at fixed rates

Pensions

The Group operates a combination of defined benefit schemes, closed to new members and future accrual, as well as defined contribution schemes

The largest scheme across the Group is the Smiths News defined benefit scheme, which as at 31 August 2012 has an IAS 19 accounting surplus of £40 3m On an actuarial basis the last valuation at 31 March 2009 was a £(50 0)m deficit and a deficit repair plan of £5 8m for 10 years was agreed At the date of this report the March 2012 valuation had commenced, but had not been finalised

Balance Sheet

£m	FY 2012	FY 2011
Total non-current assets	**97.9**	62 6
Total net current liabilities before borrowings	**(35 4)**	(49 6)
Total net loans and other borrowings	**(98.0)**	(61 0)
Total other non-current liabilities	**(16.3)**	(12 2)
Total Equity	**(51.8)**	(60 2)

As at 31 August 2012 total equity was (£51 8m) (2011 (£60 2m)), with retained earnings increasing by £7 6m to £222 5m

There have been no material events after the balance sheet date

Critical accounting policies

The directors believe that the accounting policies discussed below represent those which require the greatest exercise of judgement The directors have used their best judgement in determining the estimates and assumptions used in these areas but a different set of judgements could result in material changes to our reported results Information about critical judgements in applying appropriate accounting policy are included in the following notes

Property provisions, Note 26 page 114
Intangible assets, Note 11 page 100
Contingent liability, Note 27 page 115
Pension accounting, Note 6 page 95

Going concern

The Group meets its day-to-day working capital requirements through its bank facilities of up to £177m 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

Despite the uncertain economic environment, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future Thus the Group continues to adopt the going concern basis in preparing its consolidated financial statements

Our Performance

Risks & Uncertainties

Risks & Uncertainties	Potential Impact	Mitigation
Consumer confidence and spending	The economic environment remains uncertain, and Government spending cuts and unemployment levels have also contributed to reduced consumer confidence and discretionary spending, including the sales of newspapers, magazines and books	The habitual nature of newspapers and magazines helps to limit the impact Demand for books is similarly resilient and the Group strategy remains to increase sales by targeting growth sectors such as the internet and international sales The vast majority of newspapers, magazines and books have a relatively low cover price, nonetheless, it remains possible that consumers seeking to economise could regard these as discretionary items and either stop or reduce the frequency of purchasing The Consortium's core markets have very limited exposure to consumer spending
Digital media	The increasing penetration of ebook readers and tablet devices (such as the Apple iPad and Amazon Kindle), together with publishers' increased investment in digital publishing, could lead to a sharper than anticipated decline in sales of traditional newspapers, magazines and books More generally, the move from traditional printed media to digital alternatives could have an adverse impact on sales and growth opportunities	The Group is aware that digital media will have an impact on traditional markets However, it supports the view that the impact on newspapers, magazines and books is likely to be an evolutionary rather than revolutionary process Printed products continue to represent the vast majority of revenues in newspapers, magazine and books Most publishers are heavily reliant on revenues from traditional channels and have strong incentives for the continued support of these formats and brands The Group is aware of the increase in ebook sales, particularly in fiction, but it is important to remember that the UK consumer market for printed books has an estimated value of £1 5bn Academic libraries, public libraries and international sales increase the market opportunity further Bertrams' ebook platform is facilitating our entry into the growing market for digital books in the academic sector The Group will continue to monitor market developments in the digital arena closely and is currently undertaking a strategic review as to how best to benefit from any move from traditional printed media to digital alternatives

Risks & Uncertainties	Potential Impact	Mitigation
Impact of industry regulation in the newspaper and magazine market	The OFT's decision not to prioritise further review of the newspaper and magazine industry has been challenged by some retail associations and is under review by the Competition Appeals Tribunal (CAT) If the appeal is upheld, the OFT would be required to look again at the basis of its prioritisation decision, reopening the possibility of a further review of the industry This could lead to uncertainty and reluctance by publishers to commit to long-term contracts	The appeal to the CAT, even if successful, would not directly trigger further review The Group would continue to maintain its position, supported by many other industry stakeholders that the supply chain serves consumers well and efficiently Whilst the possibility of a wider industry review is outside of the Group's direct control, the combination of leading service and the most efficient operation means Smiths News is well placed to respond to any realistic outcome The Group is always conscious of the unique arrangements in the newspaper and magazine industry and is vigilant of its responsibilities under competition law
Accelerated declines in sales impacting on newspaper and magazine and book publishers	An accelerated decline in sales of newspapers, magazines or books could have an adverse effect on revenues and undermine the business model of publishers This could lead to title closures, reduced investment in products and promotions, or even the failure of some publishers	National newspapers have a long-term trend of price increases mostly offsetting the impact of volume declines, they continue to demonstrate relative resilience Magazines have been more severely impacted by the wider economy with reduced sales and fewer new launches Nonetheless, more than 3,500 consumer magazines are in circulation in the UK and publishers continue to regard these as valuable brands Over recent years we and the publishers have adjusted our respective business models to account for anticipated reductions in sales and, in the event of accelerated sales declines, additional cost saving actions could be taken In any case, the current run rate of sales performance decline remains within our medium-term strategic forecast of 3% to 5% per annum
Contract renewal	At the time of contract renewal, publishers could seek alternative routes to market in some of Smiths News' current territories, which would result in lower sales There also remains the risk of contract renewals at lower margin	Smiths News has the majority of its major contract revenues secured until at least 2015 and is well positioned to renegotiate its contracts as and when they come up for renewal In August 2012, the Group announced a major new contract with News International (NI) through to 2019 The contract awarded an increased market share to Smiths News in place of News International's in-house operation News International's titles represent approximately 35% market share of national newspaper sales and our market share of these titles has increased from 38 6% to 48 6% The NI contract significantly de-risks the potential impact of further contract renewals, and gives greater certainty over the future of the network

Our Performance

Risks & Uncertainties continued

Risks & Uncertainties	Potential Impact	Mitigation
Impact of public sector spending	The government's plan to reduce spending in the public sector has had a detrimental impact on budgets for public libraries, reducing the value of ongoing expenditure and future contracts In the academic sector, the changes to student funding could also, over time, reduce the number of students with a consequential impact on library purchases Changes to funding in the education and care sectors could see similar cutbacks with consequential impacts on The Consortium	The Group has planned on the basis that available funds in the public sector will be more limited After a volatile period in 2011, spending levels and order patterns in libraries have settled into a more consistent pattern — indeed, in 2012 some 'bounce back' in spending was experienced in the public library consortia Looking ahead, the Group expects the position to remain stable, though further increases in core spending are unlikely The impact of changes to student funding in the academic library market remains less clear, as the Group has research to suggest the increase in student fees may also lead to improved library resources The Group will monitor the market closely and respond accordingly The Consortium supplies the Education and Care sectors, both of which are forecast to grow on the basis of demographic factors Whilst a degree of budget tightening has been experienced with some customers, The Consortium's core product lines are day-to-day consumable items that schools and care providers require on a regular basis and are less discretionary than, for example, capital investments
Property and lease commitments	Potential liabilities could crystallise in respect of previous assignments of leases where the liability could revert to the Group if the lessee defaulted Pursuant to the terms of the 2006 Demerger Agreement with WH Smith PLC, any other such contingent liability which becomes an actual liability will be apportioned between Smiths News PLC and WH Smith PLC in the ratio 35 65 (provided that the actual liability of Smiths News PLC in any 12 month period does not exceed £5m) The Group's share of these leases has an estimated future cumulative gross rental commitment at 31 August 2012 of £10 9m (2011 £13 9m)	Although the total liability is significant, many of the leases were assigned to retail companies that continue to trade well and are financially robust Given the expiry of time, it is also likely that many of the leases included within the contingent liability have been renegotiated such that any liability has been extinguished The maximum potential lease liability will continue to decline, with an estimated maximum liability of below £5m by August 2015 The Group, working with WH Smith PLC, has either sub-let or reached a mediated settlement in relation to five leases following a Creditor Voluntary Agreement made by, and subsequent administration of, Focus (DIY) Limited The cost of the mediated settlements to the Group totalled £1 6m and liability for three properties remains outstanding The cash impact resulting from the estimated future cumulative gross rental commitment would spread over more than 10 years

Risks & Uncertainties	Potential Impact	Mitigation
Financial exposure to key customers and suppliers	The failure of one or more of the Group's major customers and suppliers could affect the Group's profitability and cash flows	The Group monitors payments carefully and has a strong track record of cash collection from its customer base Payment for newspapers and magazines from smaller retailers is generally received on a weekly basis and their reliance on these products means that settlement of our invoice is generally prioritised The Group's largest credit exposure is to some of the UK's major retailers who have strong credit ratings Of our larger retailer customers, the top five are major UK PLCs with good payment records and credit ratings We also have credit insurance against a number of smaller retail chains The average credit period taken on sale of goods is 23 days (2011. 21 days) We continue to manage our credit risk tightly to ensure our customers comply with payment terms Our largest suppliers are large companies, and in some cases part of larger quoted companies, with established and stable business models The Group is aware that failure of one or more of our publisher/distributor suppliers could result in exposure to a significant cash shortfall if the credits due to retailers for unsold copies are greater than any outstanding payments due to the failed publisher / distributor The Group monitors stock and unsold levels on a regular basis and where appropriate it phases payments to publishers to ensure any exposure is minimised, we also use external data to monitor credit ratings on a regular basis Furthermore, in May 2012, we have put in place credit insurance over some (but not all) of the publishers / distributors in order to further mitigate this risk
Treasury risk	The Group finances its operations partly through drawdown of interest bearing bank loans and overdrafts Adverse movements in interest rates could therefore impact profitability and net assets	The Group has a centralised treasury function to manage Group treasury risk with clear guidelines laid down by the Board Treasury's role is to ensure that appropriate financing is available for running the businesses of the Group on a day-to-day basis, allowing for investments and acquisitions whilst minimising interest cost No transactions of a speculative nature are undertaken Dealings are restricted to those banks with suitable credit ratings and counterparty risk and credit exposure is monitored frequently The Group uses derivative financial instruments to reduce exposure to interest rate movements As at 31 August 2012, 60% of the Group's borrowings were at fixed rates
International governance	The Group has growing interests in overseas operations, with offices and staff in over 30 countries The management and governance of these distant operations has potential to expose the Group to risks such as fraud, contractual irregularities and other legal and regulatory breaches of local law	The Group has invested in additional resources and instructed external advisers to help ensure high standards in the management of its international operations Whilst important for future opportunities and growth, the Group's overseas operations remain a relatively small proportion of overall staff and revenues and exposure is, in part, limited as a result Furthermore, a significant amount of international trade is routed and invoiced through the UK operations, again reducing exposure to potential financial irregularities Governance of overseas operations is overseen locally with specialist advice but also from the UK by the Group's management, who routinely review operational and governance effectiveness

Bertrams selling books in 102 countries

Emerging player in digital ebook markets

Our Governance

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Our Governance

Board of Directors

Dennis Millard
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 and a non-executive director and Senior Independent Director of Premier Farnell plc and 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 and Xchanging plc from 2005 until September 2012 He is Chairman of Trustees of the charity The Holy Cross Children's Trust Aged 63

Andrew Brent
Non-executive Director

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 is Chief Customer and Marketing Officer at Barclays Bank and prior to that was Managing Director of GreenBottle Ltd, a start-up business in the environmental packaging category Prior to joining GreenBottle, he held senior marketing positions in a number of leading companies including BSkyB, Alliance Boots Plc, Burger King Inc , Iceland Frozen Foods Plc and Procter & Gamble Inc Aged 53

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 2006 He is currently a non-executive director of Panmure Gordon & Co plc, a Trustee of Adventure Capital Fund, a director of The Social Investment Business Ltd and a Governor of Haberdashers' Adams' Federation Trust Aged 65

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 and a member of the Financial Reporting Review Panel Aged 61

Mark Cashmore

Group Chief Executive

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 52

Jonathan Bunting

Managing Director, Smiths News

Jonathan Bunting joined the Board on 1 April 2010 He joined the business as a graduate recruit in 1994 He rose through the organisation in a variety of sales and marketing managerial roles before being promoted to the executive management team in 2001 as Trade Marketing Director He was appointed Commercial Director in August 2006, Chief Commercial Officer in April 2010 and Managing Director, Smiths News on 1 May 2012 Aged 40

Nick Gresham

Chief Financial Officer

Nick Gresham joined Smiths News and was appointed to the Board on 1 August 2010 Prior to joining Smiths News, he held various senior financial roles in GUS plc and Home Retail Group plc over a ten year period, including Group Financial Controller, Finance Director of the Financial Services division and most recently three years as Finance Director of Homebase Before joining GUS Nick worked for Virgin Retail and Debenhams Aged 41

Stuart Marriner is Company Secretary & General Counsel

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

Group Executive

Mark Cashmore is Group Chief Executive
Jonathan Bunting is Managing Director, Smiths News
Nick Gresham is Chief Financial Officer

Glenn Leech

Group HR & Services Director

Glenn Leech joined the business in November 2004 as Human Resources Director Prior to joining Smiths News, he spent seven years at Ford Motor Company, during which time he held a number of managerial positions in Employee Relations, HR Business Operations and as an HR Project Manager He was appointed Group Human Resources Director on 1 September 2011 and assumed responsibility for Group Services on 1 September 2012 Aged 37

Melanie Teal

Managing Director, The Consortium

Melanie Teal joined The Consortium in 1991 Melanie joined The Consortium as a Buyer and was promoted through various senior roles to General Manager in 1998 She was appointed to the Board of The Consortium in 2002, becoming Chief Executive in 2006 Aged 44

Graeme Underhill

Managing Director, Bertrams

Graeme Underhill joined WH Smith News 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, Operations Development Manager and Operations Director before being appointed Managing Director of Bertrams in August 2011 Aged 54

Richard Webb

Group Information Technology 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 and Group Information Technology Director on 1 September 2011 Aged 47

Corporate Responsibility Report

'We focus our efforts on four main areas: Marketplace, Environment, Community and Workplace. We set ourselves targets and challenges every year, and our employees are crucial to our success.'

Mark Cashmore Group Chief Executive

Environment

We're committed to reducing our impact on the environment with sustainable year-on-year improvements.

Workplace

We follow responsible workplace practices and believe in developing and supporting our staff at all levels of the business.

Marketplace

We take an active role in developing industry policies and best practice. We work with all our stakeholders to ensure high standards throughout the supply chain

Community

We support the active involvement of staff in the communities we serve and operate in.

Discover more on our website
www.smithsnews.co.uk

Our Governance

Corporate Responsibility Report continued

The Group takes a positive approach to Corporate Responsibility ('CR'), actively promoting responsible practice in all businesses We manage and measure our performance across four areas environment, workplace, marketplace and community The Board and the Group Executive monitor progress on a regular basis

We continue to make progress in all areas, with especially pleasing results from our environment and community programmes Highlights this year include a 4% reduction in our carbon emissions, and an expanded community programme which captured the imagination of staff and created links with dozens of charities and organisations across the United Kingdom

The Group and its divisions have a greater focus and more information than ever before to help reduce the impact of our activities on the environment We know the biggest differences are the result of improving efficiency in distribution and in having modern energy efficient facilities — but we have also reduced our impact through focus on recycling, waste reduction and constant measurement of performance to identify areas of improvement

Governance and Management

The Corporate Responsibility Committee oversees the management of our CR programme, working to objectives which are reviewed annually by the Group Executive and the Board The Committee reports to the Group Executive and gives the Board regular updates on any significant issues and achievements The Board considers a full progress report every year and issues of particular significance or urgency are considered by the Board, the Group Executive and divisions as they arise Health & safety is reviewed as a standing item at every meeting of the Board and Group Executive

The CR Committee is composed of managers with responsibility for each of our focus areas community, workplace, marketplace and environment Its objectives are aligned with those of our day-to-day operation Where appropriate, we have subcommittees and steering groups to take responsibility for those issues that require significant focus and direction We also work with our industry partners and other outside agencies, typically in setting industry standards and best practice An example this year was our planning for the Olympic Games which required much advance work to ensure communities had a full service despite security requirements and transport restrictions

Showcasing our Expertise

Reducing carbon emissions

Smiths News PLC has achieved recertification to the Carbon Trust Standard (CTS), covering the business until February 2014. This follows our initial certification in 2010

The standard is a mark of excellence, awarded to those organisations that make a real carbon reduction Business units covered include Smiths News, Bertrams and our Media & Marketing business

By reducing our electricity, gas, heating oil and all fuel used for business travel we demonstrated a reduction in carbon emissions of 4%, far exceeding the minimum pass requirements

We were delighted with our recertification, which demonstrates our commitment to continued reduction of carbon emissions across the Group

For further information see
our website at **www smithsnews co uk**

Environment

The Group continues to make good progress in reducing its energy consumption and carbon emissions Smiths News PLC was accredited by the Carbon Trust in 2010, and was reaccredited in September 2012 The Company met the early action metrics of the Carbon Reduction Commitment

For the year ended March 2012 (measurements for the Carbon Reduction Commitment are taken in line with tax years) Smiths News achieved a 4% year on year carbon reduction following an 8% reduction the previous year

Behind this success is a variety of factors Network reorganisation in Smiths News and improved facilities have played a significant part So too has the close monitoring of energy levels, made possible by the installation of automatic meter readers for electricity at all Smiths News locations Smiths News depots receive weekly electricity usage reports and utility leagues are produced weekly showing actual usage and year-on-year measures Further improvements are expected from the installation this year of automatic readers for gas consumption The Group Central Operations team is supported by specialist consultants who have provided external challenge, comparative data and assistance in our approach to reducing energy and carbon

The Group continues to make progress in vehicle emissions This year we completed the replacement of our 7 5 ton commercial vans with new Euro5 standard vehicles Those staff supplied with company cars are encouraged to choose models with low CO_2 levels and efficient fuel usage As a result, the average company car vehicle CO_2 emissions have reduced from 151 2 g/km in 2007 to 128 08 g/km in 2012, a reduction of 15%

We work closely with waste and recycling companies to maximise recycling opportunities Over 99% of the unsold copies of newspapers and magazines continue to be recycled and by collecting returns during the delivery window we minimise transport impacts of their collection In 2012, a scale returns processing unit, utilising the efficient 'walking floor containers', was installed at Birmingham, adding to those already in place at Newport, Nottingham, Plymouth and Peterborough Smiths News continues to make progress with recycling of packaging which this year rose to 81% (2011 66%) Recycling performance tables are distributed monthly and depots are challenged to find improvement opportunities

Corporate Responsibility Report continued

Showcasing our People

My Learning Space

2012 sees the introduction of our Group-wide online learning management system My Learning Space'.

As our business continues to grow, the need for flexible learning on a digital platform becomes ever more important in enabling us to meet the needs of a diverse workforce, both now and in the future

The system offers a wide variety of online tools for both training and development, allowing staff to access the right content at the touch of a button They can do this from their workplace or at home My Learning Space will also give our staff the opportunity to book further workshops or seminars for additional training development

For further information see
our website at **www smithsnews co uk**

Due to the timing of the acquisition part way through the financial year The Consortium was excluded from the Group's carbon assessment in 2012 The Consortium is nonetheless committed to minimising the impact of business practices on the environment and gained ISO 4001 environmental standard in April 2005 The standard certifies a business taking into account the nature, scale and environmental impact of its activities, products and services — it is subject to ongoing monitoring and audit

The Smiths News PLC Environment Policy can be viewed on our website at www smithsnews co uk

Workplace

The Group believes that clear standards and values in the workplace underpin responsible behaviour and help to promote wider best practice with customers and communities The Group complies with all necessary legislation, and has comprehensive internal policies that reflect the standards of behaviour we expect from staff We promote clear and professional communication and encourage the sharing of performance throughout the workplace

As the Group expands, we have recognised the need for improved communications and have invested in both people and resources We encourage staff to take an active interest in the business and have an electronic question line that can answer queries or address concerns, particularly in relation to major projects or organisations For more serious matters, such as potential concerns over fraud or bribery, we operate a confidential 'speak up' line and any matters raised are confidentially reviewed by the internal audit teams which report regularly to the Audit Committee

Performance management systems are in place in all our divisions with guidelines for setting goals, appraising performance and addressing underperformance Our recent staff engagement survey showed a marked improvement in performance management, reflecting the investments we have made in an online goal setting and management system, now operating in Smiths News and Bertrams We are committed to ensuring that staff appraisals and performance ratings are applied to fair and consistent standards A range of 'comparator groups' and cross functional review panels help to ensure the system is as objective and fair as possible

Showcasing our People

Smiths News celebrates Olympic success

In preparation for the Olympic Games Smiths News formed two project teams to cover logistics, sales planning and communications All stores in the Olympic Games areas were mapped out to show the road exclusions and other known traffic management issues during the Games period, so that deliveries could continue to get through Throughout the 70 day Olympic Torch Relay, staff at Smiths News' National Newspaper Sales Centre recorded fantastic increases in sales of Regional and National titles Smiths News were delighted with how well their operational plans had materialised Around 2,500 customers in London received a high level of service, and over 6 million newspapers had been delivered despite the challenges The most impacted customers within the Olympic Route Network and those affected by the Olympic road events received their deliveries on time throughout the Games, something the teams in London worked extremely hard to achieve

For further information see our website at **www smithsnews co uk**

In parallel with performance management, the Group conducts development reviews, identifying staff with the potential and ambition to progress to new and more senior roles Those who wish to develop skills are supported with on-site and classroom training and where appropriate, secondment or project based learning

In Smiths News, our award-winning apprentice scheme has been a great success with nearly 40 participants over a three year period moving into their first management roles We plan to continue and develop the programme, recognising that many young people in particular are looking for work based development as an alternative to formal academic qualifications We also continue to offer a Graduate programme, presenting a potential fast track to more senior roles and it is pleasing that so many of our early participants are now fully established in positions as varied as Operations, Commercial and Human Resources

Bertrams has continued with its programme of literacy and skills training The training not only improves efficiency at work, but also benefits staff in their personal lives Working with Pitman Training and Learndirect we offer personalised training with the flexibility to fit around our working hours and an environment in which staff feel comfortable The courses we offer include certificates in Maths and English as well as a range of Information Technology modules

The Group believes that opportunities should be open to all staff with the relevant experience and talent Our policies forbid discrimination on the grounds of disability, race, religion, age or disfigurement We are working with the Employers Forum on Disability to further improve awareness and understanding of workplace disabilities, and how reasonable adjustments might be made to accommodate any difficulties

Marketplace

As a leading player in all our supply chains the Group plays a positive role in developing industry standards and contributing to wider marketplace responsibility initiatives

Smiths News recognises its critical role in ensuring the wide availability of a diverse press in the territories that it serves Working with our publishers we ensure all retailers receive high standards of service regardless of their size or location We take pride in serving small and remote communities that may not otherwise have access to newspapers and magazines

Our Governance

Corporate Responsibility Report continued

Recognising that in many territories we operate with exclusive distribution contracts Smiths News supports transparency of standards and performance It actively supports the service standards of the Industry Charter and promotes the associated complaints and resolution process This year senior managers from the business have worked to develop these standards under a review of the Industry Charter led by independent Chairman Michel Woodman

Following publication of the Bailey Report, Smiths News has new industry guidelines for the sale and display of men's lifestyle magazines Smiths News has worked closely with all its industry partners to ensure new guidelines are established and made available to retailers Our policies on the sale and display of both adult titles and men's lifestyle magazines have been refreshed in the light of the new guidelines

Community

We take pride that our businesses make a real difference to everyday lives of people and communities The service we provide matters, whether we are supplying newspapers to remote villages in the depth of winter, or making sure libraries, schools and care homes have essential supplies right throughout the year In many areas we are a significant employer, creating jobs and playing an important role in the local economy

Our Community programme encourages staff to become involved in their communities and in supporting charities and good causes The Group's volunteering scheme seeks to provide flexibility in hours or free time to assist with charity involvement Each location has a community champion, with responsibility for encouraging and coordinating local activities with support from our Head Office team

Community week is the Group's annual campaign that provides a focus for activities and a range of flagship events Amongst hundreds of initiatives we saw teams raising funds by cycling the length of England, walking Hadrian's Wall and the Ridgeway, or simply getting together for race nights and quizzes Others volunteered their time, assisting in care homes, hospices and schools In total our staff raised over £102,000 for good causes

The Company donated over £14,000 in assisting the efforts of individual staff in a variety of small-scale fundraising and sponsorship projects Across the Group, each business unit has its own initiatives The Consortium has an active community programme with staff organising charity events and taking part in local and national events Bertrams donates books to educational establishments, charities and other good causes as well as giving 20% of the funds raised through the staff bookshop to charity partners In Smiths News, individual locations often have links to local charities, Newcastle depot for example raised over £6,000 for Leonard Cheshire Homes and provides regular working parties to assist with gardening and other duties Smiths News also continues to work with publishers and retailers, helping to raise funds for the industry charity, NewstrAid

In April 2012 the Group was awarded the government silver quality mark for payroll giving schemes

Showcasing our People

Community Week returns

The Group's employee-led charity initiative ran again this year, culminating in a week of fundraising at the end of June, which included two flagship fundraising events

The 'Ridgeway Walk' saw 18 members of staff from across the Group take part in a 26 mile sponsored trek along the Ridgeway in Oxfordshire to raise money for Sense, a charity that supports children and adults who are deaf and blind

Thirteen cycling enthusiasts took on the challenge to cycle 375 miles in our 'S to N' charity bike ride, each raising money for a charity of their choice These included Marie Curie, the Alzheimer's Society, Cancer Research UK, and the industry's own charity, NewstrAid The cyclists' journey began at our Smiths News depot in Southampton, finishing 6 days later at the Angel of the North in Newcastle

And the fundraising results for 2012 were amazing With a target of £70,000, the combined efforts of staff saw the total at the end of the financial year reach over £102,000

But the Community Week fundraising results weren't the only thing the Group had to celebrate this summer Having proudly supported swimmer Michael Jamieson (son of Instore Field Controller Jackie Jamieson) since December 2010, we were delighted when he qualified for the 2012 Olympics

Michael performed superbly at the games, winning a silver medal in the 200m breaststroke

We were thrilled when he was able to join us at our very first 'Community Week Awards' ceremony Introduced this year, the awards aim to recognise the commitment and energy that goes into making our Community Week activity so successful

Hosted by Group Chief Executive Mark Cashmore, the efforts of everyone across the business were celebrated, as a range of nominees from across the Group were awarded titles ranging from Outstanding Individual Contribution to Fundraising Team of the Year

For further information see
our website at **www smithsnews co uk**

Our Governance

Corporate Responsibility Report continued

Health & Safety

The Group takes a proactive and responsible approach to the Health & Safety of its employees, customers and contractors

We have a health & safety team in each of our divisions Their role is to assist with the achievement of our health & safety duties and targets, including monitoring policy and performance, undertaking risk assessments and incident investigations, and delivering training

In line with the move to a Group operating model, we appointed a Group Head of health & safety this year This senior role will be responsible for implementing a revised and Group-wide strategy in the year ahead, aiming to further our health & safety culture by delivering greater consistency of approach and associated performance improvements

Health & Safety performance is routinely monitored by the Executive Management Team in each business unit, and a summary report is sent to the Group Executive each month In addition, the Audit Committee and the Board reviews incidents, trends and overall performance on a regular basis The Health & Safety policy and overall performance is reviewed at least annually by the Board

Smiths News

	2012	2011	2010	2010 LFL†	2009	2008
Major injuries	**0**	2	1	1	2	1
Injuries resulting in over 3 days absence from work/hospitalisation	**40**	47	67	40	34	61
All RIDDORs*	**40***	49	68	41	36	62

Bertrams Group

	2012	2011	2010	2009	2008
Major injuries	**0**	0	0	0	0
Injuries resulting in over 3 days absence from work/hospitalisation	**2**	6	3	6	2
All RIDDORs*	**2**	6	3	6	2

The Consortium (inc. West Mercia Supplies)

	2012
Major injuries	**0**
Injuries resulting in over 3 days absence from work/hospitalisation	**3**
All RIDDORs*	**3**

Group Totals

	2012	2011	2010	2010 LFL†	2009	2008
Major injuries	**0**	2	1	1	2	1
Injuries resulting in over 3 days absence from work/hospitalisation	**45**	53	70	43	40	63
All RIDDORs*	**45**	55	71	44	42	64

* RIDDOR Reporting of Injuries Diseases and Dangerous Occurrences Regulations

† LFL Excludes the impact of the new contract areas and depots acquired in 2010 to compare on a like-for-like basis with 2009

Directors' Report

The directors of Smiths News PLC (the 'Company') present their report and audited accounts of the Company and its subsidiaries (the 'Group') for the year ended 31 August 2012

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 53 to 56 inclusive, together with the Corporate Governance report on pages 57 to 61, the Audit Committee Report on pages 62 and 63, the Remuneration Report on pages 64 to 74 and the sections of the Annual Report which comprise the Business Review, all of which are deemed to be incorporated by reference in (and shall be deemed to form part of) this report, 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 distribution of newspapers, magazines, books and consumable products, operating as four divisions

- Smiths News, the UK's largest wholesaler of newspapers and magazines, serving around 30,000 retailers across England and Wales,
- Bertrams (including Dawson Books), a leading UK book wholesaler, supplying books to a mix of independent booksellers, online and multiple retailers as well as public, academic and professional libraries,
- The Consortium, a leading independent distributor of consumable products to the UK education and care markets, serving around 30,000 customers, and
- Media & Marketing, comprising Dawson Media Direct, a leading supplier of newspapers, magazines and digital and audio visual content to airlines, and Marketlink Marketing Communications, a marketing support business

The principal companies affecting the profits or net assets of the Group in the year are listed in Note 35 to the Accounts

Business review

A review of the business of the Group during the financial year ended 31 August 2012, 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 is set out in the following sections of the Annual Report, which are incorporated into this report by reference

- Our Business on pages 2 to 11,
- Our Performance on pages 12 to 39, and
- Corporate Responsibility Report on pages 45 to 52

Transactions

On 23 April 2012, the Company acquired Hedgelane Limited ('Hedgelane') for an aggregate consideration of £38 0m Hedgelane's principal subsidiary trades as The Consortium for Purchasing and Distribution Limited ('The Consortium'), a leading independent distributor of consumable products to the education and care markets

The aggregate consideration comprises £32 0m of initial cash consideration, up to £2 0m of contingent consideration payable in cash in or around January 2013 dependent on certain conditions and up to £4 0m of contingent consideration payable in Smiths News PLC shares in or around January 2014 dependent on certain conditions

On 13 June 2012, the Company acquired Houtschild Internationale Boekhandel B V ('Houtschild') from Blackwell UK Limited for a net consideration of £0 7m satisfied in cash via its subsidiary Dawson Books Limited Houtschild, based in the Netherlands, is a leading supplier of books and journals into both academic libraries and Government Institutions across Northern Europe

On 27 June 2012, the Company's subsidiary, Dawson Books Limited, sold its 12 6% interest in eBooks Corporation Limited (a distributor of ebooks based in Australia), for £1 0m

Further details of these transactions can be found in Notes 12 and 13 to the Accounts

Our Governance

Directors' Report continued

Profit and dividends

The profit for the financial year, after taxation, was £27 5m (2011 £21 9m)

The directors recommend the payment of a final dividend for the year of 5 8p per ordinary share (2011 5 4p) on 8 February 2013 to members on the Register at the close of business on 11 January 2013

This final dividend, together with the interim dividend of 2 8p per ordinary share paid on 8 June 2012, makes a total dividend of 8 6p per ordinary share for the year ended 31 August 2012 (2011 8 0p)

Capital structure

As at the date of this report the Company's issued share capital comprises 183,819,376 ordinary shares of 5p each nominal value Details of movements in the issued share capital can be found in Note 30 to the Accounts These shares can be held in certificated or uncertificated form and are listed on the London Stock Exchange

All ordinary shares rank equally with respect to voting and dividend rights, each share carrying the right to one vote at general meetings of the Company There are no specific restrictions either on the size of a holding or on the transfer of shares, which are both governed by the provisions of the Company's Articles of Association (the 'Articles') and prevailing legislation and regulations No shareholder has any special rights of control over the Company's share capital and all issued shares are fully paid

Details of the Company's share schemes are set out in the Remuneration Report on pages 64 to 74 and in Note 33 to the Accounts The Trustee of the Smiths News Employee Benefit Trust waives its right to vote and to dividends on the shares that it holds

Issue of new ordinary shares

During the financial year ended 31 August 2012, 77,482 ordinary shares in the Company were issued under the terms of the Sharesave Scheme at prices between 79 2p and 100 8p The Articles 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 27 January 2012, authority was given for the Company to purchase, in the market, up to 18,345,425 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 2013 to renew the authority for a further year

Interests in voting rights

As at 16 October 2012 the Company had received notifications of the following major shareholdings, representing 3% or more of the voting rights attached to the issued share capital of the Company

Holder	Number	%	Nature of Holding
Silchester International Investors LLP	36,438,995	19 87	Direct Interest
Prudential plc	18,080,038	9 85	Direct Interest
Henderson Global Investors	15,522,275	8 46	Indirect Interest
Aberforth Partners LLP	9,357,508	5 10	Indirect Interest
Legal & General Group Plc	7,331,327	3 99	Direct Interest

Except for the above, the Company is not aware of any ordinary shareholders with interests in 3% or more of the voting rights attached to the issued share capital of the Company

Significant agreements — change of control

Each of the Company's trading subsidiaries has agreements with customers and suppliers that contain change of control clauses giving rights to those customers and suppliers 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 and/or one or more of its subsidiaries is party, such as banking arrangements, property leases and licence agreements, to alter or terminate In addition, employee share plans would be similarly affected, and in the case of Mark Cashmore, his service contract provides for compensation for loss of office on a change of control Details of the change of control clause in the service contract of Mark Cashmore can be found in the Remuneration Report on page 69

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 Articles

The names of the directors as at the date of this report, together with biographical details, are set out on pages 42 and 43 All the directors served throughout the year

The Articles give 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 Articles themselves may be amended by special resolution of the shareholders

The Articles 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 However, in accordance with the UK Corporate Governance Code (the 'Code'), it is the Board's policy that all directors stand for re-election at the Annual General Meeting This is notwithstanding that the Company, which is a 'smaller company' for the purposes of the Code, is not formally required to re-elect all directors on an annual basis

The Chairman confirms that, following the recent external Board review, each of the non-executive directors makes an effective and valuable contribution to the Board and demonstrates commitment to their respective roles The Board review also confirmed that Dennis Millard 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 64 to 74

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 and for the directors of its Associated Companies, 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

Employees

Details of the Group's policies in relation to employment, training and development, employee engagement, employee share ownership and equal opportunities are set out in the Group Chief Executive Operating Review on pages 16 and 17

Charitable and political donations

Charitable donations during the year ended 31 August 2012 totalled £14,118 (2011 £4,640) 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 Report on pages 50 and 51

It is the Group's policy not to make political donations and no political donations or EU political expenditure were made in the year (2011 £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 31 days (2011 33 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

Our Governance

Directors' Report continued

Disclosure of information to auditor

Each director confirms that, so far as he is aware, there is no relevant audit information of which the Company's auditor is 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 auditor is 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

Auditor

Deloitte LLP ('Deloitte') have expressed their willingness to continue in office as auditor of the Company Resolutions to re-appoint Deloitte as auditor to the Company and to authorise the Audit Committee to determine their remuneration will be proposed at the Annual General Meeting Given the expected continued engagement of Deloitte for non-audit services, in particular in relation to the Company's digital strategy review, the Company intends to tender for audit services during the course of the current financial year

Annual General Meeting

The Annual General Meeting of the Company will be held at Rowan House, Cherry Orchard North, Kembrey Park, Swindon, Wiltshire, SN2 8UH on 24 January 2013 at 11 30 am The Notice of Annual General Meeting is given, together with explanatory notes on the five items of special business to be considered at the meeting, in the booklet which accompanies this report

This report was approved by the Board on 16 October 2012

By order of the Board

Stuart Marriner
Company Secretary & General Counsel
16 October 2012

Corporate Governance

Smiths News PLC continues to be 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 2010, are contained in the UK Corporate Governance Code (the 'Code')

Statement of compliance with the Code

Throughout the year ended 31 August 2012, the Company has applied the main principles of and complied with the provisions of the Code, which is publicly available at www frc org uk This report, together with the Audit Committee Report on pages 62 and 63 and the Remuneration Report on pages 64 to 74, describe how the Company has applied the main principles of the Code during the year

The Board

Board composition

On 16 October 2012, the Board comprised the Chairman, three executive directors and three independent non-executive directors Short biographies of each of the directors, which illustrate their range of experience and qualifications, are set out on pages 42 and 43

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 managing the Group's businesses and implementing Group strategy The division of responsibilities between the Chairman and Group Chief Executive has been set out in writing and agreed by the Board The Board considers that it is of an appropriate size to oversee the Group's businesses, with a structure that 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 Chairman Andrew Brent, Anthony Cann and John Worby (Senior Independent Director), 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

The Chairman's other directorships are described in his biographical details set out on page 42 On 19 July 2012, he was appointed Interim Executive Chairman of Halfords Group plc He was formerly non-executive Chairman and will revert to this role in November 2012 The Board believes that this appointment has not adversely affected his Chairmanship of the Company and is satisfied that all of the non-executive directors have sufficient time available to be effective members of the Board

The Board's role

The Board is responsible for the overall strategy and performance of the Company, and had eight scheduled meetings and four additional meetings during the year It manages the Company through a formal schedule of matters reserved for its decision Such matters include

- overall strategic direction and management of the Company, including acquisitions and disposals,
- approval of long-term objectives and commercial strategy,
- approval of the annual operating and capital expenditure budgets,
- approval of major capital expenditure,
- approval of material agreements and non-recurring projects,
- changes relating to the Company's capital structure,
- approval of the accounts,
- dividend and treasury policies,
- control, audit and risk management,
- remuneration of directors and senior managers, and
- corporate responsibility

Directors

All directors have access to the advice and services of the Company Secretary and may take independent professional advice at the Company's expense where necessary In preparation for Board meetings, information is received by the Board in a timely manner and of a quality sufficient for the Board to take decisions

All new directors receive induction training on joining the Board, which is tailored to meet the needs of the individual The induction programme is supplemented by ongoing training and development, the need for which is regularly assessed by the Board

The Company's Articles of Association (the 'Articles') 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 However, the Board has agreed that all directors will stand for re-election at the Annual General Meeting ('AGM') on 24 January 2013 This practice was introduced in 2011 and accords with the Code (notwithstanding that the Company, which is a 'smaller company' for the purposes of the Code, is not formally required to re-elect all directors on an annual basis)

The Board considers that each of the non-executive directors contributes external expertise and experience in areas of importance to the Group, and in so doing makes an effective and valuable contribution to the Board

Our Governance

Corporate Governance continued

Details of the directors' service contracts, remuneration, options to subscribe for shares in the Company and interests of the directors and their immediate families in the share capital of the Company are shown in the Remuneration Report on pages 64 to 74

Directors' conflicts of interest

The Companies Act 2006 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') The Articles contain provisions that allow the Board to consider and, if it sees fit, to authorise situational conflicts

The Board confirms that such powers have been operated effectively and that a formal system for directors to declare their interests and for the independent directors to authorise situational conflicts continues to be in place Any authorisations given are recorded in the Board minutes and in a register of directors' conflicts which is reviewed annually by the Board

Board Committees

The Board delegates specific responsibilities to its Audit, Nominations and Remuneration Committees (described below) The role and responsibilities of each Committee are set out in formal terms of reference, which are reviewed annually The terms of reference for each of the Committees are available on the Company's website (www smithsnews co uk) and from the Company Secretary on request

Audit Committee

The Audit Committee, which met four times during the year, is chaired by John Worby, who the Board has determined has recent and relevant financial experience and its other members are Andrew Brent, Anthony Cann and Dennis Millard, who all have extensive business experience John Worby, Andrew Brent and Anthony Cann are independent non-executive directors and Dennis Millard was independent when appointed Chairman

The Audit Committee's principal responsibilities include overseeing the effectiveness of the Group's financial reporting processes and controls and its risk management activities, the integrity of its financial statements, the effectiveness and independence of the external auditor and the performance of the internal audit function

The Audit Committee Report, which provides details of the role and activities of the Committee and its relationship with the internal and external auditors, is set out on pages 62 and 63

Nominations Committee

The Nominations Committee, which met once during the year, is chaired by Dennis Millard and its other members are Andrew Brent, Anthony Cann and John Worby

The Committee's terms of reference include

- reviewing the structure, size and composition of the Board including the skills, knowledge, experience and diversity of the directors,
- ensuring plans are in place for orderly succession planning for directors and senior management, and
- identifying and nominating candidates to fill Board vacancies

The Committee holds one meeting each year to review succession planning and its terms of reference and otherwise meets as required

There were no new appointments to the Board during the year

Remuneration Committee

The Remuneration Committee, which met four times during the year, is chaired by Anthony Cann and its other members are Andrew Brent, Dennis Millard and John Worby At the invitation of the Committee, the Group Chief Executive, Chief Financial Officer, Group HR & Services 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, which provides more detailed information on the role of the Committee and the remuneration of the directors, is set out on pages 64 to 74

Attendance at Board and Committee meetings

The following table shows the attendance of directors at Board and Committee meetings held during the year

	Scheduled Board Meetings	Committee Meetings		
		Audit	Nominations	Remuneration
No of meetings*	**8**	**4**	**1**	**4**
Dennis Millard	8	4	1	4
Jonathan Bunting	8	–	–	–
Mark Cashmore	8	–	–	–
Nick Gresham	8	–	–	–
Andrew Brent	8	4	1	4
Anthony Cann	8	4	1	4
John Worby	8	4	1	4

* Four additional Board meetings three of which were held by telephone conference call, were attended by all of the directors during the year

The Board has met twice since 31 August 2012 and all the directors attended the meetings In addition, the Audit Committee has met once and the Remuneration Committee has met twice since 31 August 2012

Evaluation of the Board and its committees

In previous years the Board has conducted an internal evaluation of its performance, the performance of its committees and of individual directors which consisted of each director completing an extensive questionnaire covering Board and committee procedures and effectiveness and individual contributions to Board and committee meetings, a one-to-one discussion between the Chairman and each director to discuss their contribution and performance during the year and training needs, if any, and a meeting of the non-executive directors led by the senior independent director to discuss the Chairman's performance and provide feedback

This year the Board appointed an external facilitator to carry out its first ever independently facilitated Board review The aim of the review is to provide insight into the effectiveness of the Board and to consider the skills, knowledge, experience and diversity of the non-executive directors to ensure that the Board has the capability to deliver its long-term business plan

The review, which took place between July and October this year and evaluated the Board from three perspectives good governance process and procedure, right content, right issues, right decisions, and capabilities and behaviours, comprised one-to-one interviews with each director and the Company Secretary and observation of the Board meeting held in September

The external facilitator has reported its findings to the Chairman and these were discussed by the Board at its meeting in October The review concluded that the Board and its committees were operating effectively, with a high level of commitment from each of the directors

Diversity

The Board considers itself diverse in terms of the background, skills and experience each director brings to the Board

The Nominations Committee recognises the benefits to the Group of diversity and, in accordance with its terms of reference, when considering any new appointment to the Board, will evaluate the balance of skills, knowledge, experience and diversity, including gender on the Board, and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment

At its meeting in July, the Nominations Committee considered diversity in the context of gender, ethnicity and disability across all businesses in the Group and was pleased to note the progress which had been made during the year Excluding those Managing Directors who are also members of the Group Executive Board, there is 50% female representation on the Smiths News Executive Board and 23% female representation across all of the Group's executive boards

Across the Group, female representation in management roles is 34%, which is in line with the Group's total population, where females represent 35% of all employees This compares favourably with the logistics industry average, where less than 10% of managerial roles are held by women

Internal control and risk management

The Board has overall responsibility for the Company's system of internal control including risk management and for reviewing its effectiveness throughout the Group Such a system is 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

Our Governance

Corporate Governance continued

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 Company's risk management and internal control systems and has reported regularly to the Board

The key features of the risk management process are as follows

- Internal Risk Committees which are responsible for monitoring the nature and extent of the risks across the business,
- each 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 reviewed and updated quarterly by its Internal Risk Committee and are reported to and reviewed by the executive management and Audit Committee, and
- the results of these business risk assessments contribute to the development of the risk based annual internal audit plan Audit reports in relation to the areas reviewed are reported to the respective Internal Risk Committees and Audit Committee

As part of Business Planning, the Board undertook a detailed review of its risk appetite in a number of key areas and discussed these in detail at its July Board meeting The results of the review will support decision making in the 2012/13 financial year and the Board will continue to review its risk appetite annually in light of changes to the economic environment, strategic progress and business performance

Internal control

The Company has an established framework of internal controls covering both financial and non-financial controls, the effectiveness of which is regularly reviewed by the Audit Committee on behalf of the Board

The Board is responsible for the overall strategic direction and management of the Company, including acquisitions and disposals, approving long-term objectives and commercial strategy, approving the annual operating and capital expenditure budgets, approving major capital expenditure, approving material agreements and non-recurring projects, changes relating to the Company's capital structure, approving the accounts, dividend and treasury policies, control, audit and risk management, remuneration of directors and senior managers, and corporate responsibility

The Approvals Committee, which comprises the Group Chief Executive and Chief Financial Officer, 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 Board has established an organisational structure with clearly defined reporting lines and controls at all levels of management across the business, identifying transactions requiring approval by the Board or by the Approvals Committee 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 systems of risk management and internal control

The system of financial control also includes

- a comprehensive system for budgeting and planning together with monitoring and reporting the performance of the Company's businesses 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,
- a full appraisal of all major investment projects,
- key controls over major business risks including reviews against performance indicators and exception reporting,
- monthly reporting of treasury activities and risks, for review by senior executives, and
- annual reports covering treasury policies, pensions and insurance, for review by the Board or Audit Committee

Additional non-financial controls include

- key performance indicators to monitor customer service levels in each business, with summary level results reported to the Board monthly,
- independent customer satisfaction surveys,
- independent employee relations surveys,
- a corporate responsibility programme which addresses the impact of the Company's activities on the environment, workplace, marketplace and community,

- a Corporate Responsibility Committee which is responsible for reviewing delivery against corporate responsibility objectives, with annual updates provided to the Board,
- an Environmental Policy, which is reviewed annually by the Board,
- an Anti-Corruption Policy, which is reviewed annually by the Board,
- a Health & Safety Policy, which is reviewed annually by the Board,
- Health & Safety Risk Management teams, working with the businesses to assess health & safety risks and introduce systems to mitigate them Details of major business incidents are reported to the Internal Risk and Audit Committees and all notified accidents are investigated,
- reports of the Reporting of Injuries, Diseases and Dangerous Occurrence Regulations provided to the Board on a regular basis,
- a commitment by the Company to ensure that its personnel meet high standards of integrity and competence The Company's systems cover recruitment, training and development of personnel, and the communication of Company policies and procedures throughout the organisation,
- business recovery plans to enable each of the Group's businesses to continue with minimum disruption to customers in the event of a disaster These plans are reviewed by the respective business Internal Risk Committee and Audit Committee,
- a Code of Business Conduct which takes into account the interests of all stakeholders,
- a Public Interest Disclosure Policy and associated whistle-blowing speak up line whereby employees can report in confidence incidences of suspected fraud, and
- a Data Protection Policy setting strict guidelines for the use of confidential customer and supplier data

The Internal Audit team assists in maintaining adequate financial controls by reviewing the design and operating effectiveness of core financial processes and controls as part of the internal audit plan approved by the Audit Committee annually

Internal Audit meets annually with senior executives from each of the Group's businesses in order to co-ordinate formal certifications from management of the effectiveness of internal controls These certificates are submitted to the respective Internal Risk Committees In turn, the Internal Risk Committees provide a certificate to the Audit Committee in order to assist the Board with conducting its annual review of the effectiveness of internal controls in compliance with the Turnbull Guidance

The Audit Committee has carried out a review of the effectiveness of the Company's systems of risk management and internal control during the year This assessment considered all significant aspects of risk management and 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

Relations with shareholders

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

Following the announcement of the Company's full year and interim results, formal presentations are made to institutional shareholders by the Group Chief Executive and Chief Financial Officer covering a range of key issues affecting the Company's performance

All shareholders have the opportunity to ask questions at the AGM, which is normally attended by all of the directors The notice of the AGM is sent to shareholders at least 20 working days before the meeting and includes notice of the availability of the Annual Report on the Company's website At the AGM, separate resolutions are proposed on each separate issue and shareholders vote on each resolution by way of a poll (rather than on a show of hands) This ensures that the final result is more democratic as the proxy votes are added to the votes of shareholders present, who vote all their shares (rather than one vote per shareholder) Proxy Forms allow shareholders to vote for or against, or to withhold their vote on each resolution, and the results of the poll are 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 Chief Financial Officer update the Board following meetings with major shareholders whilst independent feedback from shareholders is provided to the Board by the Company's advisers and brokers The Chairman met with certain major shareholders during the year and both he and the Senior Independent Director make themselves available to attend meetings with major shareholders

Approval

This report was approved by the Board and signed on its behalf by

Dennis Millard
Chairman
16 October 2012

Our Governance

Audit Committee Report

Membership of the Committee

The Audit Committee is chaired by John Worby, who the Board has determined has recent and relevant financial experience, and its other members are Andrew Brent, Anthony Cann and Dennis Millard, who all have extensive business experience

Summary of the role and responsibilities of the Committee

The role and responsibilities of the Audit Committee are set out in its terms of reference, which are available on the Company's website (www smithsnews co uk) and from the Company Secretary on request The terms of reference, which address all matters set out in Disclosure and Transparency Rule 7 1 and the UK Corporate Governance Code, are considered annually by the Committee and are then referred to the Board for approval The principal responsibilities of the Committee are

- monitoring the integrity of the Group's financial statements and any other announcements relating to the Group's financial performance and reviewing significant financial reporting issues and judgements contained therein,
- keeping under review the effectiveness of the Group's internal control and risk management systems,
- monitoring and reviewing the effectiveness of the Group's internal audit function in the context of the Group's overall risk management system,
- making recommendations to the Board as to the re-appointment or otherwise of the external auditor and the approval of their remuneration and terms of engagement,
- assessing the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements,
- reviewing the policy on the engagement of the external auditor to supply non-audit services, taking into account relevant professional and regulatory guidance and monitoring compliance,
- ensuring the Company maintains suitable arrangements for employees to raise matters of concern in confidence ('whistle-blowing'), and
- reviewing the Group's systems and controls for the prevention of bribery

Meetings

The Committee met four times during the year to consider an agenda planned around the Group's financial calendar

At the invitation of the Committee, the Group Chief Executive, Chief Financial Officer, Group Head of Internal Audit and representatives of the external auditor attend its meetings Other members of the executive management teams attend meetings from time to time to present reports specific to their areas of responsibility

At least once a year the Committee meets the external auditor without management present and holds a separate private meeting with the Group Head of Internal Audit

Committee's activities during the year

In the year ended 31 August 2012 and up to the date of this report the Committee has

- reviewed the 2011 and 2012 Financial Statements, 2011 and 2012 Annual Report and Accounts and 2012 interim results,
- considered reports from management on significant issues affecting the financial statements, and reports from the external auditor on its audit of the financial statements including any accounting or judgemental issues requiring its attention,
- approved audit plans for the external and internal auditors,
- agreed the fees to be paid to the external auditor for its audit of the 2011 and 2012 Financial Statements and review of the 2012 interim results,
- considered reports from the Group Head of Internal Audit on the results of internal audit reviews, significant findings, management action plans, and timeliness of resolution,
- reviewed the effectiveness of the Group's internal control and risk management process and the related disclosures in the Annual Report and Accounts,
- reviewed management of fraud risk and incidences of fraud,
- met privately with the external auditor and with the Group Head of Internal Audit,
- reviewed the effectiveness of internal audit,
- reviewed the Group's whistle-blowing policy and bribery prevention procedures,
- reviewed the independence and performance of the external auditor,
- reviewed the Company's policy on the engagement of the external auditor to provide non-audit services, and
- reviewed its own effectiveness and terms of reference

External auditor

Under its terms of reference, the Committee is responsible for assessing the scope, fee, objectivity and effectiveness of external audits, and for making a recommendation to the Board regarding the appointment of the external auditor on an annual basis

The Committee has a formal policy to review the selection of the external auditor at least every five years For this purpose the current term of engagement of the incumbent external auditor, Deloitte LLP ('Deloitte'), is regarded as having 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 auditor, 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 auditor's objectivity is not impaired The prior approval of the Chairman of the Audit Committee is required if the cost of non-audit work is likely to exceed £20,000 per annum Deloitte are retained as the Company's independent remuneration adviser Also, during the year Deloitte provided separate advice on the acquisition of The Consortium and on the Company's digital strategy project The Committee is satisfied that the use of Deloitte for these services did not impair their independence as the Group's external auditor The fees paid to Deloitte during the year in respect of audit and non-audit services are shown in Note 3 to the Accounts

The Committee, following its annual review of the independence and performance of Deloitte as external auditor, 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 AGM However, given the expected continued engagement of Deloitte for non-audit services, in particular in relation to the Company's digital strategy review, the Company intends to tender for audit services during the course of the current financial year

Internal Audit function

The Committee is responsible for monitoring and reviewing the effectiveness of the internal audit function in the context of the Group's overall risk management system During the year, the Company has reviewed and increased internal audit resources

In fulfilling its responsibilities, the Committee has reviewed the following in the period

- the scope, resource and activities of the internal audit function within the Group,
- Internal Audit's plans and its achievement of the planned activity,
- a summary of the reports on the results of individual audit reviews, significant findings, management action plans, and timeliness of resolution, and
- the performance of the internal auditors

The Group operates a telephone hotline whereby employees can report in confidence suspected incidences of fraud All reports of suspected fraud are investigated by Internal Audit and/or management and reported to the respective business's Internal Risk Committee and Audit Committee On completion of an investigation findings are reported to the appropriate Internal Risk Committee and Audit Committee

Overview

In carrying out the activities outlined above, the Committee has acted in accordance with its terms of reference It has also ensured the independence and objectivity of the external auditor, and has assisted the Board in its review of the effectiveness of the Group's system of internal control and risk management

The Chairman of the Audit Committee will be available at the Annual General Meeting to answer any questions about the work of the Committee

Approval

This report was approved by the Audit Committee and signed on its behalf by

John Worby
Chairman of the Audit Committee
16 October 2012

Our Governance

Remuneration Report

Dear Shareholder,

On behalf of the Board, I am pleased to present the directors' Remuneration Report for the year ended 31 August 2012

As in previous years, the Remuneration Committee reviews executive remuneration arrangements in order that they are effective in supporting the business strategy, market competitive and continue to be aligned with the interests of our shareholders The following sets out a number of key decisions and outcomes in relation to our executive arrangements

- **Economic Profit Plan** Following a review of the operation of the Economic Profit Plan (EPP) in September 2011, the Committee decided to introduce a number of changes from 2011/12 To increase the incentive to generate profits over and above the Group's cost of capital, the percentage of economic profit paid into the economic profit pool (the 'Pool') each year, which had previously been fixed at 10%, will depend on the achievement of economic profit targets set annually based on the business plan, with between 2 5% and 7 5% of economic profit being paid into the Pool dependent on the achievement of economic profit targets Also, in line with good governance practice, the plan rules were amended to include a clawback clause, whereby in the event of a material misstatement of the financial results, participants may within a penod of one year be required to reimburse to the Company part or all of any payment received

- **LTIP** Following consideration and consultation with some major shareholders, the Committee decided to continue the LTIP along the same lines as previously operated with stretching targets reflecting the progress of the Group

- **Salaries** Following the annual review in December 2011, with the exception of Jonathan Bunting, executive director salaries were increased by *c* 2% with effect from 1 January 2012, in line with salary increases throughout the Group Jonathan Bunting's salary was increased from £215,000 to £250,000 (*c* 16%) with effect from 1 May 2012 in recognition of his promotion to the role of Managing Director, Smiths News

2012/13 executive remuneration

In view of the need to incentivise and retain those executives critical to delivering the Company's challenging three year business plan, the Committee has decided to increase the overall maximum incentive opportunity, comprising opportunities under the Annual Bonus Plan, EPP and LTIP, for Nick Gresham (Chief Financial Officer) and Jonathan Bunting (Managing Director, Smiths News) from 155% of base salary to 200% of base salary, thereby providing them with the same level of incentive opportunity as the Group Chief Executive

In taking this decision, the Committee has considered the level of incentive opportunities for executive directors of FTSE SmallCap companies generally and has also been mindful of the current economic and governance climate

Further details on the changes outlined above can be found on pages 65 to 67

The Committee takes an active interest in and welcomes shareholders' views We also pay close attention to the voting on the Remuneration Report and hope to receive your support at the forthcoming AGM

Anthony Cann
Chairman of the Remuneration Committee

This 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 UK Corporate Governance Code The report has been prepared in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and satisfies the requirements of 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 2012 Shareholders will be asked to approve the report at the Annual General Meeting on 24 January 2013

Part A — Unaudited

Remuneration Committee

The Remuneration Committee is chaired by Anthony Cann and its other members throughout the year were Andrew Brent, Dennis Millard and John Worby Anthony Cann, Andrew Brent and John Worby are all independent non-executive directors and Dennis Millard was independent on appointment as Chairman The Committee met four 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,
- reviewing the ongoing appropriateness and relevance of the remuneration policy,
- reviewing the policy for any performance related pay schemes operated for those below executive management level and approving total annual payments made under all performance related pay schemes,
- reviewing the design of all short and long-term incentive plans for approval by the Board and, where required, by shareholders,
- determining the policy for the grant of share incentives to executive directors and senior executives, setting appropriate performance targets and approving the quantum of grants and vesting schedules,
- 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
- 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 its independent adviser, Deloitte LLP ('Deloitte') Deloitte also provided audit services to the Company and separate advice on the acquisition of The Consortium and on the Company's digital strategy project The Committee is satisfied that the remuneration advice it receives from Deloitte is independent Glenn Leech, Group HR & Services 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 D of the UK Corporate Governance 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 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

For the year under review, the overall maximum incentive opportunity was 200% of base salary for Mark Cashmore and 155% of base salary for Nick Gresham and Jonathan Bunting For Mark Cashmore, this comprised an annual bonus opportunity of 100% of salary, an economic profit bonus opportunity of 50% of salary and an LTIP opportunity of 50% of salary For Nick Gresham and Jonathan Bunting, it comprised an annual bonus opportunity of 80% of salary, an economic profit bonus opportunity of 40% of salary and an LTIP opportunity of 35% of salary As a new joiner in FY2010/11, Nick Gresham's economic profit bonus opportunity was capped at 27% of salary for the year ended 31 August 2012

As explained in the letter from the Chairman of the Committee on page 64, for the year ending 31 August 2013 it has been decided to increase the overall maximum incentive opportunity for Nick Gresham and Jonathan Bunting from 155% of base salary to 200% of base salary, comprising an annual bonus opportunity of 100% of salary, an economic profit bonus opportunity of 50% of salary and an LTIP opportunity of 50% of salary This provides them

Our Governance

Remuneration Report continued

with the same overall maximum incentive opportunity as for Mark Cashmore (whose incentive participation levels will remain unchanged) The proportion of the annual bonus and economic profit bonus to be paid in the form of deferred shares will remain unchanged at 33% and 50% respectively The Annual Bonus Plan, Economic Profit Plan ('EPP') and LTIP are described in more detail below

Fixed and variable remuneration 2012/13

The charts below show the expected relative value at target and maximum performance levels of the fixed and variable (performance related) elements of the executive directors' remuneration package for the financial year ending 31 August 2013

a) 33% 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% 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) At target performance level, long term incentives comprising Annual Bonus Shares, EPP and LTIP, represent 75% of variable (performance-related) remuneration and at maximum performance level, long term incentives represent 67% of variable remuneration
d) The above charts do not include the value of other benefits such as the provision of a company car, private medical insurance and employer pension contributions

Salary and benefits

The salaries of executive directors are reviewed annually in December, with any new salaries normally taking effect from 1 January When conducting any review, the Committee takes into account a range of factors including the Group'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 Group

Following the review in December 2011, the salary of Mark Cashmore was increased from £323,000 to £329,500 (+2 0%) and the salary of Nick Gresham was increased from £232,500 to £237,500 (+2 2%), which were in line with the average salary increases throughout the Group for 2012 of 2%

The Committee recognises that in the current economic environment salary increases should be kept to a minimum and be in line with salary increases throughout the Group, but as mentioned in the letter from the Chairman on page 64, Jonathan Bunting was promoted to the new role of Managing Director, Smiths News on 1 May 2012 His salary was increased from £215,000 to £250,000 (c 16%), with effect from 1 May 2012, to appropriately recognise the scope of the role and ensure it was market competitive

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 an underlying profit before tax target and on personal performance, set at the beginning of each year Target level is based on the achievement of stretching performance, maximum level requires performance significantly beyond market expectations For Jonathan Bunting, who has divisional responsibility for Smiths News, personal performance will take account of the performance against budget of Smiths News

For the year under review, Mark Cashmore had the opportunity to receive an annual bonus up to a maximum of 100% of base salary (47 5% at target level) and Nick Gresham and Jonathan Bunting had the opportunity to receive an annual bonus up to a maximum of 80% of base

salary (37 5% at target level), one-third of which is payable in the form of shares, the receipt of which is deferred for two years (see Deferred Bonus Plan below)

As a result of exceeding the target profit before tax of £44 2m and personal performance, Mark Cashmore's annual bonus for the year under review is £273,815, representing 83 1% of salary, Nick Gresham's annual bonus for the year under review is £158,413, representing 66 7% of salary and Jonathan Bunting's annual bonus for the year under review is £166,750, representing 66 7% of salary Of these bonuses, two-thirds will be paid in cash in November 2012 and one-third will be paid in the form of shares

As a result of the Committee's decision to increase their overall maximum incentive opportunity from 2012/13, the annual bonus opportunity for Nick Gresham and Jonathan Bunting will be increased from 80% of base salary (37 5% at target level) to 100% of base salary (47 5% at target level) The annual bonus opportunity for Mark Cashmore will remain unchanged

Economic Profit Plan

Under this plan, which was introduced in 2008, 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 '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, the percentage of economic profit paid into the Pool each year being determined by the achievement of economic profit targets set annually based on the business plan, with 2 5% of economic profit being paid into the Pool for achievement of the minimum economic profit target, 5% of economic profit being paid into the Pool for achievement of the target economic profit and 7 5% of economic profit being paid into the Pool for achievement of the maximum economic profit target One-third of the Pool is then distributed to participants each year (allocated in the proportion of each participant's base salary to the participants' total base salaries) and two-thirds is carried forward to form part of the Pool for the following year The main objectives 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

For the year under review, Mark Cashmore was able to receive an allocation of up to 50% of base salary and Jonathan Bunting was able to receive an allocation of up to 40% of base salary Given the nature of the plan, an executive's entitlement will build up during the first three years of participation As such, as a new joiner in FY2010/11, Nick Gresham was able to receive an allocation of up to 27% of base salary

It is current policy that half of the annual payout is in cash and half is in the form of shares, the receipt of which is deferred for two years (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 2012 resulted in a contribution to the Pool of £703,000, bringing the total value of the Pool to £1,531,000 In respect of the year ended 31 August 2012, of this Pool, Mark Cashmore will receive £147,376, representing 44 7% of base salary, Nick Gresham will receive £59,212, representing 24 9% of base salary and Jonathan Bunting will receive £84,808, representing 33 9% of base salary Of these payouts, half will be paid in cash in November 2012 and half will be paid in the form of shares under the terms of the Deferred Bonus Plan

As a result of the Committee's decision to increase their overall maximum incentive opportunity from 2012/13, the maximum amount that can be allocated in any year to Nick Gresham and Jonathan Bunting will be increased from 40% of base salary to 50% of base salary The amount that can be allocated in any year to Mark Cashmore will remain unchanged

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 awards are normally exercisable after a holding period of 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, Nick Gresham and Jonathan Bunting will be granted share awards under this plan with market values at the date of grant of £91,272, £52,804 and £55,583 respectively in connection with the Annual Bonus Plan and £73,688, £29,606 and £42,404 respectively in connection with the Economic Profit Plan These awards will be granted in November 2012

Long-term incentives
Smiths News LTIP

Under this plan, 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

In the year under review, Mark Cashmore received an award to the value of 50% of base salary and Nick Gresham and Jonathan Bunting received awards to the value of 35% of base salary As a result of the Committee's decision to increase the overall maximum incentive opportunity for Nick Gresham and Jonathan Bunting from 2012/13, all of the executive directors will be granted awards to the value of 50% of base salary in November 2012

Our Governance

Remuneration Report continued

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 senior executives earnings per share ('EPS') is the most appropriate measure of the Company's performance

For awards granted to executive directors and senior executives on 30 April 2009, 26 November 2009, 11 August 2011 and 17 November 2011, the performance condition is based on the Company's aggregate EPS over the three years ended 31 August 2011, three years ended 31 August 2012, three years ending 31 August 2013 and three years ending 31 August 2014 respectively (the 'Performance Period'), as set out in the following table

Date of Grant	Aggregate EPS performance over the Performance Period	Proportion exercisable
30 April 2009	Below 41p	Zero
	41p	20%
	Pro-rating applies between these points	Between 20% and 100%
	45p or more	100%
26 November 2009	Below 42 5p	Zero
	42 5p	20%
	Pro-rating applies between these points	Between 20% and 100%
	47 5p or more	100%
11 August 2011*	Below 47p	Zero
	47p	20%
	Pro-rating applies between these points	Between 20% and 100%
	51 5p or more	100%
17 November 2011	Below 53 3p	Zero
	53 3p	20%
	Pro-rating applies between these points	Between 20% and 100%
	57 5p or more	100%

* Owing to the Company being in a prohibited period while negotiating the acquisition of Dawson Holdings PLC and subsequently awaiting HMRC guidance on the operation of the Disguised Remuneration legislation enacted on 19 July 2011, the 2010 awards, which would normally have been granted in November 2010, were not granted until 11 August 2011

For the purposes of the above targets, EPS is 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

Measured on the basis described above, aggregate EPS over the three years ended 31 August 2011 is 43 9p, and resulted in 78% of the awards granted on 30 April 2009 being exercisable from 20 October 2011

Aggregate EPS over the three years ended 31 August 2012 is 50p, and has resulted in 100% of the awards granted on 26 November 2009 being exercisable from 16 October 2012

Smiths News share option schemes

The Company operates two types of share option scheme

a) an Executive Share Option Scheme which is used to grant options to executives up to an annual limit of 200% of base salary Options granted in November 2008 are only exercisable if the Company's underlying profit before tax for the year ended 31 August 2011 exceeds £30m As the Company's underlying profit before tax for the year ended 31 August 2011 is £38 6m, these options became exercisable from 27 November 2011 Options granted in November 2009 are only exercisable if the Company's underlying profit before tax for the year ended 31 August 2012 exceeds £30 5m As the Company's underlying profit before tax for the year ended 31 August 2012 is £47 5m, these options will be exercisable from 26 November 2012 Options granted in June 2011 will only be exercisable if the Company's underlying profit before tax for the year ending 31 August 2013 exceeds £35m and options granted in November 2011 will only be exercisable if the Company's underlying profit before tax for the year ending 31 August 2014 exceeds £38 6m The Committee will conduct its annual review of the performance condition prior to the grant of options in November 2012 The executive

directors did not participate in this Scheme in the financial year ended 31 August 2012 and will not participate in the current financial year, and

b) an HM Revenue & Customs 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 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% 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

WH Smith Executive Share Option Scheme 1999 (pre-demerger)

For options granted in 2004 and 2005, prior to the demerger of WH Smith Retail on 31 August 2006, 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% for growth of RPI plus 9% to 100% for growth of RPI plus 15%

For those options granted in November 2004, adjusted EPS growth exceeded RPI plus 15% 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% over the three year period ended 31 August 2008 and, as such, these options became exercisable in full on 2 November 2008

Personal shareholdings

The Company's shareholding guidelines, introduced in January 2009, require executive directors to build up over a period of five years and then maintain a target holding of 100% of salary and other members of the executive management team to build up over a period of five years and then maintain a target holding of 75% of salary

In exceptional circumstances, executive directors may seek permission temporarily to go below their target holding and in reviewing this request the Committee takes into consideration deferred shares as well as the reason for the request

Contracts of service

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

	Date of contract	Notice period by Company	Notice period by director
Jonathan Bunting	1 April 2010	One year	Nine months
Mark Cashmore	4 July 2006	One year	Nine months
Nick Gresham	23 August 2010	One year	Nine 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, Mark Cashmore's contract provides for a payment of liquidated damages of 95% 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 The letters of appointment of the non-executive directors are available for inspection at the Company's registered office during normal business hours and at the AGM

Our Governance

Remuneration Report continued

Performance graph

The following graph shows the Total Shareholder Return ('TSR') performance of the Company since 31 August 2007, against the FTSE Support Services Sector (which was chosen because it represents a broad equity market index of which the Company is a constituent)

TSR was calculated by reference to the growth in share price, as adjusted for reinvested dividends

Cumulative TSR Based to 100

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 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 Computershare Trustees (Jersey) Limited (formerly EES Trustees International Limited), an independent professional trustee company based in Jersey

The number of shares held in the Smiths News Employee Benefit Trust at 31 August 2012 was 1,830,696 The accounting treatment is shown in the Group Statement of Changes in Equity on page 82

Dilution limits

Share awards and executive share options are usually 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

Jonathan Bunting participates in the money purchase section of the WH Smith Pension Trust The other executive directors participate in the Smiths News section of the WH Smith Retirement Savings Plan Under these plans an executive director may contribute up to an amount equivalent to 5% 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 ended 31 August 2012, for Mark Cashmore the salary supplement was equivalent to 25% of salary and for Jonathan Bunting and Nick Gresham it was equivalent to 20% 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 and it does not conflict with the interests of the Company Executive directors may retain the fee for such an appointment The executive directors do not currently hold any non-executive directorships

Part B — Audited
Directors' remuneration

The remuneration of the directors for the financial year ended 31 August 2012 was as follows

	Salary/fees £'000	Annual Bonus £'000	Economic Profit Plan £'000	Pension Supplement and benefits £'000	Total £'000	Year to 31 August 2011 £'000
Executive						
Jonathan Bunting	227	111	42	63	**443**	344
Mark Cashmore	327	183	74	85	**669**	591
Nick Gresham	236	106	30	60	**432**	376
Non-executive						
Dennis Millard (Chairman)	110	—	—	—	**110**	110
Andrew Brent	35	—	—	—	**35**	35
Anthony Cann	40	—	—	—	**40**	40
John Worby	40	—	—	—	**40**	40
Total	1,015	400	146	208	**1,769**	1,536

a) Pension Supplement and benefits this includes any pension salary supplement taken as an addition to basic pay the provision of a company car, private medical insurance and relocation expenses
b) Jonathan Bunting earned an annual bonus of £166 750 of which £55 583 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 2012
c) Mark Cashmore earned an annual bonus of £273,815, of which £91 272 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 2012
d) Nick Gresham earned an annual bonus of £158,413, of which £52,804 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 2012
e) Jonathan Bunting will receive an Economic Profit Plan payout of £84,808, of which £42,404 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 2012
f) Mark Cashmore will receive an Economic Profit Plan payout of £147 376 of which £73 688 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 2012
g) Nick Gresham will receive an Economic Profit Plan payout of £59,212, of which £29,606 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 2012
h) All of the directors served throughout the year

Directors' pensions
Defined contribution schemes

Jonathan Bunting was a member of the Smiths News section of the WH Smith Pension Trust during the year ended 31 August 2012 Mark Cashmore and Nick Gresham were members of the Smiths News section of the WH Smith Retirement Savings Plan during the year ended 31 August 2012

Directors' pension contributions during the year were as follows

	Employee contribution		Employer contribution	
	% of salary	£'000	% of salary	£'000
Jonathan Bunting	15	34	5	11
Mark Cashmore	10	34	5	16
Nick Gresham	5	12	5	12

a) 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
b) Jonathan Bunting received a salary supplement of 20% of salary, 10% of which was taken as an additional pension contribution and is included in the Employee contribution in the above table and 10% of which was taken as an addition to basic pay and is included in the table of Directors' remuneration
c) Mark Cashmore received a salary supplement of 25% of salary, 5% of which was taken as an additional pension contribution and is included in the Employee contribution in the above table and 20% of which was taken as an addition to basic pay and is included in the table of Directors remuneration
d) Nick Gresham received a salary supplement of 20% of salary all of which was taken as an addition to basic pay and is included in the table of Directors remuneration
e) The dependants of Jonathan Bunting are eligible for payment of a lump sum in the event of death-in-service equivalent to eight times salary The dependants of the other executive directors are eligible for payment of a lump sum in the event of death-in service equivalent to four times salary

Our Governance

Remuneration Report continued

Directors' deferred share awards
Smiths News Deferred Bonus Plan

Details of the deferred share awards (in the form of nil cost options) granted to executive directors under the Smiths News Deferred Bonus Plan (arising from the Annual Bonus Plan and Economic Profit Plan) are as follows

	Date of Grant	Number of shares subject to awards at 1 September 2011	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 2012	Share price at date of grant (pence)	Exercise period
Jonathan Bunting							
Annual Bonus Plan	26 11 09	48,837	–	48,837	–	107 50	26 11 11–26 11 12
Economic Profit Plan	26 11 09	10,620	–	10,620	–	107 50	26 11 11–26 11 12
Annual Bonus Plan	11 08 11	59,025	–	–	**59,025**	84 71	26 10 12–26 10 13
Economic Profit Plan	11 08 11	27,215	–	–	**27,215**	84 71	26 10 12–26 10 13
Annual Bonus Plan	08 11 11	–	39,895	–	**39,895**	93 92	08 11 13–08 11 14
Economic Profit Plan	08 11 11	–	37,538	–	**37,538**	93 92	08 11 13–08 11 14
Total		145,697	77,433	59,457	**163,673**		
Mark Cashmore							
Annual Bonus Plan	26 11 09	102,326	–	102,326	–	107 50	26 11 11–26 11 12
Economic Profit Plan	26 11 09	20,860	–	20,860	–	107 50	26 11 11–26 11 12
Annual Bonus Plan	11 08 11	125,920	–	–	**125,920**	84 71	26 10 12–26 10 13
Economic Profit Plan	11 08 11	52,871	–	–	**52,871**	84 71	26 10 12–26 10 13
Annual Bonus Plan	08 11 11	–	68,657	–	**68,657**	93 92	08 11 13–08 11 14
Economic Profit Plan	08 11 11	–	68,147	–	**68,147**	93 92	08 11 13–08 11 14
Total		301,977	136,804	123,186	**315,595**		
Nick Gresham							
Annual Bonus Plan	08 11 11	–	39,016	–	**39,016**	93 92	08 11 13–08 11 14
Economic Profit Plan	08 11 11	–	13,545	–	**13,545**	93 92	08 11 13–08 11 14
Total		–	52,561	–	**52,561**		

a) Full details of the Annual Bonus Plan Economic Profit Plan and Deferred Bonus Plan are set out on pages 66 and 67
b) There are no further performance conditions attached to these awards, which are exercisable subject only to continued employment
c) No option price is payable on either the grant or exercise of any award
d) The holding period for awards granted on 11 August 2011 which were to have been granted on 26 October 2010 will end on 26 October 2012
e) Jonathan Bunting exercised the awards granted to him on 26 November 2009 on 29 November 2011 The market value of the shares on the date of exercise was £51,988 (87 4375p per ordinary share)
f) Mark Cashmore exercised the awards granted to him on 26 November 2009 on 29 November 2011 The market value of the shares on the date of exercise was £107 711 (87 4375p per ordinary share)
g) The total gains made by all directors on the exercise of deferred share awards during the year was £159,699
h) No awards have lapsed during the year ended 31 August 2012
i) No awards have been granted to or exercised by directors between 1 September 2012 and 16 October 2012

Directors' long-term incentive schemes
Smiths News LTIP

Details of the conditional awards (in the form of nil cost options) to acquire ordinary shares of the Company granted to executive directors under the Smiths News LTIP are as follows

	Date of Grant	Number of shares subject to awards at 1 September 2011	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 lapsed during the year	Number of shares subject to awards at 31 August 2012	Share price at date of grant (pence)	Exercise period
Jonathan Bunting								
2008	30 04 09	61,146	—	47,693	13,453	—	100 17	Oct 2011–30 04 19
2009	26 11 09	65,116	—	—	—	**65,116**	107 50	Oct 2012–26 11 19
2010	11 08 11	88,832	—	—	—	**88,832**	84 71	Oct 2013–11 08 21
2011	17 11 11	—	80,766	—	—	**80,766**	93 17	Oct 2014–17 11 21
Total		215,094	80,766	47,693	13,453	**234,714**		
Mark Cashmore								
2008	30 04 09	137,267	—	107,068	30,199	—	100 17	Oct 2011–30 04 19
2009	26 11 09	148,837	—	—	—	**148,837**	107 50	Oct 2012–26 11 19
2010	11 08 11	190,650	—	—	—	**190,650**	84 71	Oct 2013–11 08 21
2011	17 11 11	—	173,339	—	—	**173,339**	93 17	Oct 2014–17 11 21
Total		476,754	173,339	107,068	30,199	**512,826**		
Nick Gresham								
2010	11 08 11	310,146	—	—	—	**310,146**	84 71	Oct 2013–11 08 21
2011	17 11 11	—	87,340	—	—	**87,340**	93 17	Oct 2014–17 11 21
Total		310,146	87,340	—	—	**397,486**		

a) The number of shares subject to awards is the maximum (100%) number of shares that could be received by the director if the aggregate EPS performance targets as set out on page 68 are fully met
b) The aggregate EPS performance target applicable to awards granted on 30 April 2009 was met to the extent that 78% of these awards vested and became exercisable on 20 October 2011
c) The maximum aggregate EPS performance target applicable to awards granted on 26 November 2009 has been met and, as such, these awards have vested and are exercisable in full from 16 October 2012
d) No option price is payable on either the grant or exercise of any award
e) The award granted to Nick Gresham on 11 August 2011 in respect of 310 146 shares comprises a normal award of 35% of base salary and an exceptional award of 78% of base salary in respect of incentives forgone from his previous employer
f) Jonathan Bunting exercised the award granted to him on 30 April 2009 on 29 November 2011 The market value of the shares on the date of exercise was £41,702 (87 4375p per ordinary share)
g) Mark Cashmore exercised the award granted to him on 30 April 2009 on 25 October 2011 The market value of the shares on the date of exercise was £100 685 (94 0385p per ordinary share)
h) The total gains made by all directors on the exercise of LTIP awards during the year was £142 387
i) No awards have been granted to or exercised by directors between 1 September 2012 and 16 October 2012

Our Governance

Remuneration Report continued

Share option schemes

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

	Date of Grant	Number of shares subject to options at 1 September 2011	Number of shares subject to options granted during the year	Number of shares subject to options lapsed during the year	Number of shares subject to options at 31 August 2012	Option price (pence)	Exercise period
Jonathan Bunting							
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	120,681	–	–	**120,681**	88 00	02 11 08–01 11 15
Smiths News Sharesave Scheme	04 06 08	11,058	–	11,058	**–**	85 00	01 08 11–31 01 12
	01 06 11	11,183	–	–	**11,183**	80 70	01 08 14–31 01 15
Total		207,125	–	11,058	**196,067**		
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	24 06 09	2,310	–	–	**2,310**	79 20	01 09 12–28 02 13
	02 06 10	3,689	–	–	**3,689**	98 40	01 08 13–31 01 14
	30 05 12	–	4,580	–	**4,580**	78 60	01 08 15–31 01 16
Total		239,224	4,580		**243,804**		
Nick Gresham							
Smiths News Sharesave Scheme	01 06 11	4,473	–	–	**4,473**	80 70	01 08 14–31 01 15
Total		4,473	–	–	**4,473**		

a) The middle market price of an ordinary share at the close of business on 31 August 2012 was 116p (31 August 2011 83 75p)
b) The high and low middle market prices of an ordinary share during the year were 118p and 75 25p respectively
c) The maximum EPS performance target applicable to the options granted under the WH Smith Executive Share Option Scheme 1999 on 3 November 2004 and 2 November 2005, as set out on page 69 has been met and as such these options became exercisable in full on 3 November 2007 and 2 November 2008 respectively
d) No share options have been exercised during the year ended 31 August 2012
e) No share options have been granted to or exercised by directors between 1 September 2012 and 16 October 2012

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 2012	31 August 2011
Andrew Brent	**10,101**	10,101
Jonathan Bunting	**180,174**	130,402
Anthony Cann	**30,000**	30,000
Mark Cashmore	**270,771**	162,270
Nick Gresham	**–**	–
Dennis Millard	**85,000**	85,000
John Worby	**12,000**	12,000

There has been no change in the directors' interests shown above between 1 September 2012 and 16 October 2012

Approval

This report was approved by the Remuneration Committee and signed on its behalf by

Anthony Cann
Chairman of the Remuneration Committee
16 October 2012

Directors' Responsibilities Statement

The directors are responsible for preparing the Annual 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 Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and 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) Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing the parent company financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting 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, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

In preparing the group financial statements, International Accounting Standard 1 requires that directors

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- 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, and
- make an assessment of the company's ability to continue as a going concern

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the 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 the relevant financial reporting framework, 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
16 October 2012

Nick Gresham
Chief Financial Officer
16 October 2012

Secured £200m revenue per annum under the News International contract

Emerging player in the inflight entertainment market

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Our Financials

Independent Auditor's 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 2012 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group Balance Sheet, the Group Statement of Changes in Equity, the Group Cash Flow Statement and the related Notes 1 to 35 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 Chapter 3 of Part 16 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 auditor's 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 auditor

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 and express an opinion on 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 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 In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

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 2012 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 matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the group 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 UK Corporate Governance Code specified for our review, and
- certain elements of the report to shareholders by the Board on directors' remuneration

Other matter

We have reported separately on the parent company financial statements of Smiths News PLC for the year ended 31 August 2012 and on the information in the Directors' Remuneration Report that is described as having been audited

Alexander Butterworth ACA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Reading, United Kingdom
16 October 2012

Our Financials

Group Income Statement

For the year ended 31 August 2012

£m	Note	2012 Underlying*	2012 Non-recurring and other items†	2012 Total	2011 Underlying*	2011 Non-recurring and other items†	2011 Total
Continuing operations							
Revenue	2	**1,803 9**	**–**	**1,803.9**	1,734 4	–	1,734 4
Operating profit	2,3	**51.2**	**(10 9)**	**40.3**	41 7	(6 5)	35 2
Investment revenues	7	**1.2**	**–**	**1.2**	1 2	–	1 2
Finance costs	7	**(4.9)**	**–**	**(4.9)**	(4 3)	–	(4 3)
Profit before tax		**47.5**	**(10 9)**	**36.6**	38 6	(6 5)	32 1
Income tax expense	8	**(11 4)**	**2 3**	**(9.1)**	(10 4)	0 2	(10 2)
Profit for the year		**36 1**	**(8.6)**	**27.5**	28 2	(6 3)	21 9
Earnings per share							
Basic	10	**19 9p**		**15.2p**	15 5p		12 1p
Diluted	10	**19 3p**		**14 7p**	15 3p		11 9p
Equity dividends per share	9			**8.6p**			8 0p

* Before non-recurring and other items
† Non-recurring and other items are set out in Note 4 to the Accounts

Group Statement of Comprehensive Income

For the year ended 31 August 2012

£m	Note	2012	2011
Loss on cash flow hedges	22	**(0.2)**	(1 6)
Actuarial gain/(loss) on defined benefit pension scheme	6	**5.5**	(21 7)
Effect of asset limit on defined benefit pension scheme	6	**(13.5)**	14 4
Tax relating to components of other comprehensive income	8	**2.1**	2 4
Other comprehensive income and expense for the year		**(6.1)**	(6 5)
Profit for the year		**27.5**	21 9
Total comprehensive income and expense for the year		**21 4**	15 4

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

Group Balance Sheet

At 31 August 2012

£m	Note	2012	2011
Non-current assets			
Intangible assets	11a	**67.1**	36.9
Property, plant and equipment	14	**24.5**	18.7
Interest in jointly controlled entities and associates	15	**3.9**	3.9
Investments	16	**–**	0.1
Deferred tax assets	25	**2.4**	3.0
		97.9	62.6
Current assets			
Inventories	17	**44.6**	34.7
Trade and other receivables	18	**120.3**	109.7
Cash and cash equivalents	21	**5.1**	4.2
Assets held for sale	19	**–**	0.8
		170.0	149.4
Total assets		**267.9**	212.0
Current liabilities			
Trade and other payables	20	**(182.0)**	(180.1)*
Current tax liabilities		**(8.1)**	(7.6)
Bank loans and other borrowings	21	**(66.1)**	(26.0)
Obligations under finance leases	23	**(1.4)**	(1.1)
Derivative financial instruments	22	**(1.0)**	(0.6)
Provisions	26	**(7.8)**	(5.4)*
		(266.4)	(220.8)
Non-current liabilities			
Retirement benefit obligation	6	**(2.0)**	–
Bank loans and other borrowings	21	**(37.0)**	(39.2)
Obligations under finance leases	23	**(1.1)**	(1.2)
Other non-current liabilities	24	**(2.5)**	(0.5)
Deferred tax liabilities	25	**(4.7)**	(4.1)
Derivative financial instruments	22	**(1.3)**	(1.5)
Long-term provisions	26	**(4.7)**	(4.9)*
		(53.3)	(51.4)
Total liabilities		**(319.7)**	(272.2)
Total net liabilities		**(51.8)**	(60.2)
Equity			
Called up share capital	30(a)	**9.2**	9.2
Share premium account	30(c)	**0.6**	0.5
Other reserve	31(a)	**(280.1)**	(280.1)
ESOP reserve	31(b)	**(1.7)**	(2.6)
Hedging reserve	31(c)	**(2.3)**	(2.1)
Retained earnings	32	**222.5**	214.9
Total equity deficit		**(51.8)**	(60.2)

* £1.3m of accruals in the prior year have been restated within provisions due within one year to agree with current year treatment

The accounts were approved by the Board of Directors and authorised for issue on 16 October 2012 and were signed on its behalf by

Registered number – 05195191

Mark Cashmore
Group Chief Executive

Nick Gresham
Chief Financial Officer

Our Financials

Group Statement of Changes in Equity

For the year ended 31 August 2012

£m	Share Capital	Share Premium Account	Other Reserve	ESOP Reserve	Hedging Reserve	Retained Earnings	Total
Balance at 1 September 2010	9 2	0 4	(280 1)	(2 4)	(0 5)	211 0	(62 4)
Profit for the period	–	–	–	–	–	21 9	21 9
Loss on cash flow hedges	–	–	–	–	(1 6)	–	(1 6)
Actuarial gain on defined benefit pension scheme	–	–	–	–	–	(21 7)	(21 7)
Effect of asset limit on defined benefit pension scheme	–	–	–	–	–	14 4	14 4
Tax relating to components of other comprehensive income	–	–	–	–	–	2 4	2 4
Total comprehensive income for the year	–	–	–	–	(1 6)	17 0	15 4
Issue of share capital	–	0 1	–	–	–	–	0 1
Dividends paid	–	–	–	–	–	(13 8)	(13 8)
Employee share schemes	–	–	–	(0 2)	–	(0 2)	(0 4)
Recognition of share-based payments	–	–	–	–	–	0 9	0 9
Balance at 31 August 2011	9 2	0 5	(280 1)	(2 6)	(2 1)	214 9	(60 2)
Profit for the period	–	–	–	–	–	**27 5**	**27 5**
Loss on cash flow hedges	–	–	–	–	**(0.2)**	–	**(0 2)**
Actuarial loss on defined benefit pension scheme	–	–	–	–	–	**5 5**	**5 5**
Effect of asset limit on defined benefit pension scheme	–	–	–	–	–	**(13.5)**	**(13.5)**
Tax relating to components of other comprehensive income	–	–	–	–	–	**2 1**	**2 1**
Total comprehensive income for the year	–	–	–	–	**(0.2)**	**21.6**	**21.4**
Issue of share capital	–	**0 1**	–	–	–	–	**0.1**
Dividends paid	–	–	–	–	–	**(14.9)**	**(14 9)**
Employee share schemes	–	–	–	**0 9**	–	**(0.9)**	–
Recognition of share-based payments	–	–	–	–	–	**1.8**	**1.8**
Balance at 31 August 2012	**9 2**	**0.6**	**(280 1)**	**(1.7)**	**(2 3)**	**222.5**	**(51.8)**

Group Cash Flow Statement

For the year ended 31 August 2012

£m	Note	2012	2011
Net cash inflow from operating activities	29	**28.5**	25.2
Investing activities			
Interest received		**–**	0.1
Acquisitions	12	**(40.1)**	(17.9)
Sale of unlisted investment		**1.0**	–
Purchase of property, plant and equipment		**(4.0)**	(2.3)
Purchase of intangible assets		**(2.3)**	(0.8)
Proceeds on disposal of a property	19	**0.8**	–
Net cash used in investing activities		**(44.6)**	(20.9)
Financing activities			
Interest paid		**(3.3)**	(4.9)
Dividend paid		**(14.9)**	(13.8)
Repayments of obligations under finance leases		**(1.6)**	(1.6)
Proceeds on issue of shares		**0.1**	0.1
Purchase of shares for Employee Benefit Trust		**(0.8)**	(0.3)
(Decrease)/increase in borrowings		**(2.2)**	6.0
Increase in revolving credit facility		**40.1**	10.4
Net cash from/(used) in financing activities		**17.4**	(4.1)
Net increase in cash and cash equivalents		**1.3**	0.2
Effect of foreign exchange rate changes		**(0.4)**	–
		0.9	0.2
Opening net cash and cash equivalents		**4.2**	4.0
Closing net cash and cash equivalents	21	**5.1**	4.2
Analysis of net debt			
Cash and cash equivalents	21	**5.1**	4.2
Current borrowings	21	**(66.1)**	(26.0)
Non-current borrowings	21	**(37.0)**	(39.2)
Finance lease liabilities	23	**(2.5)**	(2.3)
Net debt		**(100.5)**	(63.3)

Our Financials

Notes to the Accounts

1. Accounting policies

(a) Basis of consolidation

Smiths News PLC ('the Company') is a company incorporated in the UK under Companies Act 2006 The Group accounts for the year ended 31 August 2012 comprise the Company and its subsidiaries (together referred to as the 'Group') and the Group's interests in jointly controlled entities and associates Subsidiary undertakings acquired during the period are included in the Group Accounts from the date of acquisition All significant subsidiary accounts are made up to 31 August and are included in the Group Accounts Further to the IAS Regulation (EC 1606/2002) the Group accounts have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('adopted IFRS') with those parts of the Companies Act 2006 applicable to companies reporting under IFRS The Company Accounts continue to be prepared in accordance with UK Generally Accepted Accounting Practice ('UK GAAP') and details of the Company Accounts, notes to the accounts and principal accounting policies are set out on pages 124 to 127

The accounts were authorised for issue by the directors on 16 October 2012

(b) Basis of preparation

Accounting basis of preparation

The accounts are prepared on the historical cost basis except certain financial instruments detailed below and are presented in Pound Sterling and rounded to £0 1m, except where otherwise indicated

The Group Accounts have been prepared in accordance with International Financial Report Standards ('IFRS') as adopted for use by the European Union

Intra-Group balances and unrealised gains and losses or income and expenses arising from intra-Group transactions are eliminated in preparing Group Accounts Unrealised gains arising from transactions with the jointly controlled entities are eliminated to the extent of the Group's interest in the entities Unrealised losses are eliminated in the same way as unrealised gains

Going concern

As detailed in Note 22, at the year end the Group had committed bank facilities in place of £145m, plus additional flexibility to secure further borrowings on Group assets of up to £35m The Group's forecasts and projections, taking account of reasonable potential variations in trading performance and the Group's negative working capital position, show that the Group should be able to operate within the level of its current financing for the foreseeable future

Despite the uncertain economic environment, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future Thus the Group continues to adopt the going concern basis in preparing its consolidated financial statements

Business combinations and goodwill

The Group uses the acquisition method of accounting to account for business combinations The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued, liabilities incurred or assumed at the date of exchange Acquisition related costs are recognised in profit or loss as incurred Any deferred or contingent purchase consideration is recognised at fair value over the period of entitlement If the contingent purchase consideration is classified as equity, it is not remeasured and settlement is accounted for in equity Any deferred or contingent payment deemed to be remuneration as opposed to purchase consideration in nature is recognised in profit or loss as incurred, and excluded from the acquisition method of accounting for business combinations Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured, initially, at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest The non-controlling interest is measured, initially, at the non-controlling interest's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised

Goodwill arising on all acquisitions is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses The carrying value is reviewed annually for impairment or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable

Intangible assets arising under a business combination (acquired intangibles) are capitalised at fair value as determined at the date of exchange and are stated at fair value less accumulated amortisation and impairment losses Amortisation of acquired intangibles is charged to the income statement on a straight-line basis over the estimated useful lives as follows

Customer relationships	– 2 5 to 11 years
Trade name	– 5 to 10 years
Software and development costs	– 3 to 5 years

1. Accounting policies continued

(b) Basis of preparation continued

Business combinations and goodwill continued

Computer software and internally generated development costs which are not integral to the related hardware are capitalised separately as an intangible asset and 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

(c) Estimates and judgements

The preparation of accounts requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense Actual results may differ from these estimates

The significant judgements made in the accounts for the year ended 31 August 2012 are

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 Management make these judgements in consultation with an independent actuary

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 6

Impairment of Goodwill

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 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 11b

Valuation of acquired intangibles

The valuation of acquired intangibles requires an estimation of value based on discounted future cash flows The cashflows modelled represent the stand alone business acquired and do not include any synergies that may be available to the Group The discount rate used is specific to each class of asset and specific to each acquisition

Returns reserve

The Group makes provisions against the operating margin on the supply of newspapers and magazines on a sale or return basis The provision is calculated in accordance with historical experience

Onerous property contracts

Property provisions require an estimate to be made of the net present value of the future costs of vacant and sublet properties The calculation includes estimates of future cost involved, including management's estimate of the long-term letting potential of the properties 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 in respect of assignment prior to the demerger 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 exposure to leases is reviewed on a regular basis and provisions are made when management estimate that it is probable that economic outflow will result

(d) Adjusted measures

The Group uses certain measures for internal reporting purposes and employee incentive arrangements The terms 'net debt', 'free cash flow', 'underlying profit', 'EBITDA' and 'non-recurring and other items' are not defined terms under IFRS and may not be comparable with similar measures disclosed by other companies

The following are the key non-IFRS measures identified by the Group

Underlying profit

Profit before non-recurring and other items

Our Financials

Notes to the Accounts continued

1. Accounting policies continued

(d) Adjusted measures continued

Non-recurring and other items

Non-recurring and other items are material items of income or expense and include certain M&A related or business restructuring costs relating to strategy changes which are not normal operating costs of the underlying business They are disclosed and described separately in the accounts where it is necessary to do so to provide further understanding of the financial performance of the Group

Free cash flow

Free cash flow is calculated as Group underlying operating profit adjusted for depreciation, amortisation, movements in working capital, capital expenditure, net interest, tax and cash pension funding and excludes non-recurring items, dividends, new finance lease, share purchases and any acquisition related costs

EBITDA

EBITDA is calculated as operating profit before depreciation, amortisation and non-recurring items

In line with loan agreements EBITDA used for covenant calculations is calculated as operating profit before depreciation, amortisation, non-recurring items and share-based payments charge but after adjusting for the last 12 months of profits for any acquisitions made in the year

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

(e) Revenue

Revenue from the sale of goods is recognised when goods are delivered and title has passed Revenue represents the amounts receivable for goods and services provided in the normal course of business, net of discounts, returns, VAT and other sales related taxes

(f) Operating profit

Operating profit is stated after charging restructuring costs and after the share of results of associates but before investment income and finance costs

(g) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax Current tax is the expected tax payable based on the taxable profit for the year, using tax rates enacted, or substantively enacted, at the balance sheet date and any adjustment to tax payable in respect of previous years

Deferred tax is provided on the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes The amount of deferred tax provided is calculated using tax rates enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which these temporary differences can be utilised

(h) Dividends

Interim and final dividends are recorded in the financial statements in the period in which they are paid

(i) Capitalisation of internally generated development costs

Expenditure on developed software is capitalised when the Group is able to demonstrate all of the following the technical feasibility of the resulting asset, the ability (and intention) to complete the development and use it, how the asset will generate probable future economic benefits, and the ability to measure reliably the expenditure attributable to the asset during its development Management estimates the future sales and long-term operating margins of the asset

(j) Jointly controlled entities and associates

The Group Accounts include the Group's share of the total recognised gains and losses in its jointly controlled entities and associates on an equity accounted basis

Investments in jointly controlled entities and associates are carried in the balance sheet at cost adjusted by post-acquisition changes in the Group's share of the net assets of the jointly controlled entities and associates, less any impairment losses The carrying values of investments in jointly controlled entities and associates include acquired goodwill Losses in a jointly controlled entity or associate in excess of the Group's interest in the jointly controlled entity or associate are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity or associate

(k) Property, plant and equipment

Property, plant and equipment assets are stated at cost less accumulated depreciation and any recognised impairment losses No depreciation has been charged on freehold land Other assets are depreciated, to a residual value, on a straight-line over their estimated useful lives, as follows

1. Accounting policies continued

(k) Property, plant and equipment continued

Freehold and long-term leasehold properties	— over 20 years
Short-term leasehold properties	— shorter of the lease period and the estimated remaining economic life
Fixtures and fittings	— 5 to 10 years
Equipment	— 8 to 12 years
Computer equipment	— up to 5 years
Vehicles	— up to 5 years

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

(l) 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 Property, plant and equipment held under finance leases is capitalised in the balance sheet at the lower of cost or present value of the minimum lease payments and is depreciated over its useful life The capital elements of future obligations under leases are included as liabilities in the balance sheet Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of return on the remaining balance of the liability

Rentals paid under operating leases are charged to income on a straight-line basis over the lease term The benefits of rent free periods and similar incentives are credited to the income statement on a straight-line basis over the full lease term

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) 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

(n) Trade receivables

Trade receivables do not carry any interest and are stated at their fair value They are 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

(o) Trade payables

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

(p) Treasury

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

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

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments to reduce exposure to interest rate movements The Group does not hold derivative financial instruments for speculative purposes

Our Financials

Notes to the Accounts continued

1. Accounting policies continued

(p) Treasury continued

Derivative financial instruments are initially recognised at fair value on the date a derivative is entered into and are subsequently remeasured at fair value The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged

Where a derivative financial instrument is designated as a hedging instrument, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity The ineffective part of any gain or loss is recognised immediately in the income statement When the forecast transaction subsequently results in the recognition of a non-financial asset or liability the associated cumulative gain or loss is removed from equity and included in the initial cost of the non-financial asset or liability When the forecast transaction subsequently results in the recognition of a financial asset or liability, the associated cumulative gain or loss that was recognised directly in equity is reclassified into the income statement in the same period during which the asset acquired or liability assumed affects the income statement Changes in the fair value of derivative financial instruments, where they are not designated as hedging instruments, are recognised in the income statement as operating costs

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

Foreign currencies

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at foreign exchange rates ruling at the balance sheet date The revenues and expenses of foreign operations are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions

Net investment in foreign operations

Exchange differences arising from this translation of foreign operations, and of related qualifying hedges are taken directly to equity They are recycled into the income statement upon disposal

Foreign currency transactions

Transactions in foreign currencies are recorded using the rate ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date Foreign exchange differences arising on translation are recognised in the income statement Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined

(q) Provisions

Provisions are recognised when the Group 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 and if this amount is capable of being reliably estimated If such an obligation is not capable of being reliably estimated, no provision is recognised and the item is disclosed as a contingent liability where material Where the effect is material, the provision is determined by discounting the expected future cash flows

(r) Retirement benefit costs

The Group operates a number of defined contribution schemes for the benefit of its employees Payments to the Group's schemes, are recognised as an expense in the income statement as incurred The Group operates 3 defined benefit pension schemes The two largest schemes, The WH Smith Pension Trust and The Consortium Care Scheme, are closed to further accrual The charge to the Group of providing benefits for these two schemes 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 in the consolidated statement of comprehensive income The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation adjusted for unrecognised past service cost, reduced by the fair value of scheme assets

1. Accounting policies continued

(r) Retirement benefit costs continued

The WH Smith Pension Trust is closed to further accrual and given the LDI policy adopted by the Pension Trustee, the present value of the economic benefits of the IAS 19 surplus in the pension scheme of £40 3m (2011 £26 8m) available on a reduction of future contributions is £nil (2011 £nil) As a result the Group has not recognised this IAS 19 surplus on the balance sheet

A Prudential Platinum scheme for the benefit of the ex-WMS employees has been put in place, the costs of providing the benefits are taken to the income statement

(s) Employee Benefit Trust

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 This value is deducted in arriving at shareholders' funds and presented as another reserve in line with IAS 32 'Financial Instruments Disclosure and Presentation'

(t) Share schemes

Share-based payments

The Group operates several share-based payment schemes, the largest of which are the Sharesave Scheme, the Executive Share Option Plan, the Long Term Incentive Plan (LTIP) and the Deferred Bonus Plan Details of these are provided in the Remuneration Report

Equity-settled share-based schemes and are measured at fair value at the date of grant The fair value is expensed with a corresponding increase in equity on a straight-line basis over the period during which employees become unconditionally entitled to the options The fair values are calculated using an appropriate option pricing model The income statement charge is then adjusted to reflect expected and actual levels of vesting based on non-market performance related criteria

Administrative expenses and distribution and marketing expenses include the cost of the share-based payment schemes

(u) Changes in accounting policies

New standards and interpretations adopted

The following new standards and interpretations have been adopted in the current year but have not impacted the reported results or the financial position

Amendment to IFRS 1 'Limited Exemption from Comparative IFRS 7 Disclosures for First Time Adopters',
Amendments to IFRS 7 'Financial Instruments Disclosures',
Amendments to IAS 1 'Presentation of Financial Statements', and
Amendments to IAS 24 'Related Party Disclosures'

New standards and interpretations not yet adopted

At the date of authorisation of these Group Financial Statements, the following Standards and Interpretations which have not been applied in preparing these Group Financial Statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU)

Amendments to IAS 12, IAS 19, IAS 27, IAS 28 and IFRIC 20,
IFRS 9 'Financial Instruments – Classification and Measurement',
IFRS 10 'Consolidated Financial Statements',
IFRS 11 'Joint Arrangements',
IFRS 12 'Disclosure of Interests in Other Entities', and
IFRS 13 'Fair Value Measurement'

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 as follows

IFRS 9 'Financial Instruments', which will introduce a number of changes in the presentation of financial instruments, and IAS 19 'Employee Benefits' will impact the measurement of the various components representing movements in the defined pension obligation and associated disclosures, but not the Group's total obligation It is likely that following the replacement of expected returns on plan assets with a net finance cost in the income statement, the profit for the period will be reduced and accordingly other comprehensive income increased

Our Financials

Notes to the Accounts continued

2. Segmental analysis

In accordance with IFRS 8 'Operating Segments', Group management has identified its operating segments The performance of these operating segments is reviewed, on a monthly basis, by the Board The Board monitors the tangible, intangible and financial assets attributable to each segment to determine the allocation of resources and the performance of each segment

These operating segments are

Newspaper and magazine wholesaling (referred to as Smiths News)	The UK market leading distributor of newspapers and magazines to 30,000 retailers across England and Wales from 48 distribution hubs
Book wholesaling (referred to as Bertrams and Dawson Books)	A leading UK distributor of physical and digital books to high street and online retailers, public libraries and academic institutions with a strong international presence, supplying 102 countries
Education and care (referred to as The Consortium)	A leading distributor of educational consumable products servicing 30,000 customers
Media and marketing services (referred to as DMD and MMC)	A supplier of newspaper and magazines to airlines and an emerging player in in-flight entertainment The division also provides fulfilment and logistics services

The following is an analysis of the Group's revenue and results by reportable segment

	Revenue		Operating profit	
£m	**2012**	2011	**2012**	2011
Newspaper and magazine wholesaling	**1,570.7**	1,600 7	**39 0**	38 0
Book wholesaling	**174.3**	132 9	**6 8**	3 7
Education and care	**26 5**	–	**3.6**	–
Media and marketing	**32 4**	0 8	**1 8**	–
Total Group – underlying	**1,803 9**	1,734 4	**51.2**	41 7
Non-recurring and other items			**(10.9)**	(6 5)
Group operating profit			**40.3**	35 2
Net finance expense			**(3.7)**	(3 1)
Profit before taxation			**36.6**	32 1

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

2. Segmental analysis continued

Information about major customers

Included in revenues arising from Newspaper and magazine wholesaling are revenues of approximately £170.2m (2011 £180m) which arose from sales to the Group's largest customer

Segment assets and liabilities

	Assets		Liabilities		Net assets	
£m	**2012**	2011	**2012**	2011	**2012**	2011
Newspaper and magazine wholesaling	**128.3**	150.2	**(245.3)**	(212.1)	**(117.0)**	(61.9)
Book wholesaling	**69.0**	47.8	**(49.6)**	(48.2)	**19.4**	(0.4)
Education and care	**52.7**	–	**(16.1)**	–	**36.6**	–
Media & marketing	**17.9**	14.0	**(8.7)**	(11.9)	**9.2**	2.1
Consolidated assets/(liabilities)	**267.9**	212.0	**(319.7)**	(272.2)	**(51.8)**	(60.2)

Segment depreciation, amortisation and non-current asset additions

	Depreciation		Amortisation		Additions to non-current assets	
£m	**2012**	2011	**2012**	2011	**2012**	2011
Newspaper and magazine wholesaling	**(4.2)**	(4.7)	**(1.5)**	(1.5)	**6.7**	2.6
Book wholesaling	**(0.5)**	(0.6)	**(1.8)**	(0.9)	**0.9**	18.6
Education and care	**(0.1)**	–	**(0.4)**	–	**31.9**	–
Media & marketing	**(0.1)**	–	**(0.3)**	–	**0.3**	8.5
Consolidated total	**(4.9)**	(5.3)	**(4.0)**	(2.4)	**39.8**	29.7

Geographical analysis

	Revenue by destination		Non-current assets by location of operation	
£m	**2012**	2011	**2012**	2011
United Kingdom	**1,741.4**	1,703.7	**97.7**	60.3
Europe	**41.0**	16.8	**0.2**	2.3
Rest of World	**21.5**	13.9	**–**	–
Consolidated total	**1,803.9**	1,734.4	**97.9**	62.6

Our Financials

Notes to the Accounts continued

3 Operating profit

The Group's results are analysed as follows

£m	Note	2012 Underlying	2012 Non-Recurring	2012 Total	2011 Underlying	2011 Non-Recurring	2011 Total
Revenue		**1,803 9**	**–**	**1,803.9**	1,734 4	–	1,734 4
Cost of inventories recognised as an expense		**(1,570 5)**	**–**	**(1,570.5)**	(1,496 3)	–	(1,496 3)
Write-down of inventories recognised as an expense		**(0 1)**	**–**	**(0 1)**	(0 1)	–	(0 1)
Other cost of sales		**(43.1)**	**–**	**(43 1)**	(77 9)	–	(77 9)
Cost of sales		**(1,613 7)**	**–**	**(1,613.7)**	(1,574 3)	–	(1,574 3)
Gross profit		**190 2**	**–**	**190 2**	160 1	–	160 1
Distribution costs		**(89.5)**	**(2.0)**	**(91.5)**	(80 9)	(1 7)	(82 6)
Administrative expenses		**(44.4)**	**(9 0)**	**(53.4)**	(34 4)	(4 8)	(39 2)
Share-based payment expense	33	**(1.4)**	**(0 4)**	**(1.8)**	(0 9)	–	(0 9)
Amortisation of intangibles	11	**(4.0)**	**–**	**(4.0)**	(2 4)	–	(2 4)
Impairment of held for sale property		**–**	**–**	**–**	(0 1)	–	(0 1)
Profit on disposal of operations	13	**–**	**0.5**	**0 5**	–	–	–
Share of profits from jointly controlled entities and associates		**0 3**	**–**	**0 3**	0 3	–	0 3
Administrative expenses		**(49 5)**	**(8 9)**	**(58.4)**	(37 5)	(4 8)	(42 3)
Operating profit		**51.2**	**(10 9)**	**40.3**	41 7	(6 5)	35 2

The operating profit is stated after charging/(crediting)

£m	Note	2012	2011
Depreciation on property, plant and equipment	14	**4 9**	5 3
Amortisation of intangible assets	11	**4.0**	2 4
Operating lease charges			
• Occupied land and buildings		**9 5**	8 6
• Vacant land and buildings		**0.3**	2 1
• Equipment and vehicles		**1 3**	2 6
Operating lease rental income – land and buildings		**(0 2)**	(0 4)
Loss on disposal of fixed assets		**0 2**	0 4
Staff costs	5	**105 4**	96 6

3. Operating profit continued

Included in administrative expenses are amounts payable to Deloitte LLP and their associates by the Company and its subsidiary undertakings in respect of audit and non-audit services which are as follows

£m	2012	2011
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**0.1**	0.1
Fees payable to the Company's auditor for the audit of the Company's subsidiaries	**0.2**	0.1
Remuneration advice	**–**	–
Digital strategy review	**0.4**	–
Other services	**0.1**	0.1
Total non-audit fees	**0.5**	0.1
Total fees	**0.8**	0.3
Total fees to the Group auditor	**0.8**	0.3
Fees payable to other auditor	**0.1**	–

Details of the Company's policy on the use of auditors for non-audit services and how the auditor's independence and objectivity was safeguarded are set out in the Corporate Governance Report on page 57 No services were provided pursuant to contingent fee arrangements

Other services includes non-audit services related to work reporting accountant performed in relation to the acquisition of The Consortium, where it was appropriate for this work to be undertaken by the Group's auditor

During the year the Group commissioned a digital strategy review of the books market After careful consideration of proposals from a number of providers the Board appointed a Deloitte digital strategy team based on market understanding, service and price

Within the next financial year the Board intends to hold a tender for the provision of audit services

4 Non-recurring and other items

£m	2012	2011
Integration costs	**(2.7)**	(0.7)
Network reorganisation costs	**(2.0)**	(2.7)
Acquisition costs	**(4.6)**	(1.7)
Gain on sale of investment	**0.5**	–
Property provisions	**–**	(0.5)
Amortisation of acquired intangibles	**(2.1)**	(0.9)
Total before tax	**(10.9)**	(6.5)
Taxation	**2.3**	0.2
Total after taxation	**(8.6)**	(6.3)

The Group incurred a total of £8.6m in non-recurring and other costs, after tax This comprises

Integration costs

In FY12 the integration of the ex-Dawson Holdings PLC businesses has resulted in a number of non-recurring costs, the largest amounts relate to redundancy costs totalling £1.1m and £0.8m related to the closure of the Rushden site and migration of the academic library book operations to Norwich These costs bring the total to date to £5.1m (including deal fees), with no further material expenses expected

Our Financials

Notes to the Accounts continued

4 Non-recurring and other items continued

Network reorganisation costs

During the period we have expensed a further £2 0m as a result of the network restructuring programme, designed to deliver £30m of costs savings over three years targeted by the Group This brings the total expensed to £4 7m since the process began This is against the expected £5m announced in October 2010 that would be required to deliver the £30m of cost savings over three years Key activities in the period include the Birmingham re-site and the announced closure of the Manchester depot Of the costs in the period the largest amount relates to redundancy costs of £1 1m Future costs of approximately £4m are expected to be incurred in FY13 to support the delivery of a new cost saving target to deliver a further £15m of savings up to 2015

Acquisition costs

Acquisition costs include advisor costs associated with the acquisition of Hedgelane Ltd (The Consortium) and Houtschild Internationale Boekhandel B V during the year, being £2 0m In addition to this, deferred consideration costs relating to The Consortium acquisition (£2 6m) have been recognised in the P&L reflecting the fact that the payments are contingent on future employment The costs have been spread over the earn out periods at the expected payout levels For further detail see Note 12a Future costs of approximately £3m are expected to be incurred in FY13

Amortisation of acquired intangibles

Intangible assets relating to acquisitions are amortised over their expected economic lives The charge to the income statement in the year to 31 August 2012 is £2 1m (2011 £0 9m), for which there is no associated cash impact This comprises £0 8m relating to the acquisition of Bertrams in March 2009, £0 9m relating to the acquisition of Dawson Holdings in August 2011 and £0 4m for a part year charge in relation to the acquisition of Hedgelane Limited in April 2012 For further details see Note 11 Future costs of approximately £3m are expected to be incurred in FY13

Gain on sale of investment

Represents £0 5m profit on the disposal of a minority stake in eBooks Corporation, see Note 13

5 Staff costs and employees

(a) Staff costs

The aggregate remuneration of employees (including executive directors) was

£m	Note	2012	2011
Wages and salaries		**94 8**	87 6
Social security		**6 6**	6 3
Pension costs	6	**2 2**	1 8
Share-based payments	33	**1.8**	0 9
Total		**105 4**	96 6

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

£m	2012	2011
Operations	**4,227**	4,527
Support functions	**616**	546
Total	**4,843**	5,073

6 Retirement benefit obligation

Defined benefit pension schemes

The Group operates three defined benefit schemes, of which the WH Smith Pension Trust (the 'Pension Trust') represents over 96% of the total obligation at 31 August 2012. As part of the acquisition of The Consortium, the Group acquired the assets and liabilities in respect of two other defined benefit schemes (the 'Consortium CARE' and 'Platinum' schemes).

The amounts recognised in the balance sheet are as follows:

£m	2012	2011
Present value of defined benefit obligation	**(395.3)**	(348.3)
Fair value of assets	**433.1**	375.1
Net surplus	**37.8**	26.8
Amounts not recognised due to asset limit	**(40.3)**	(26.8)
Pension liability	**(2.5)**	–

The Pension Trust is closed to further accrual and given the LDI policy adopted by the Pension Trustee, the present value of the economic benefits of the IAS 19 surplus in the pension scheme of £40.3m (2011: £26.8m) available on a reduction of future contributions is £nil (2011: £nil). As a result the Group has not recognised this IAS 19 surplus on the balance sheet.

£m	2012	2011
Schemes in deficit	**(2.5)**	–
	(2.5)	–
Deferred taxation	**0.5**	–
Net pension liability recognised in balance sheet	**(2.0)**	–

Future cash contributions are agreed between the Group and the Trustees of the schemes based on funding valuations carried out every three years using a different measure of the obligations (most notably using a discount rate that reflects the actual investment strategy, rather than corporate bond yields as required under IAS 19).

The valuation of the defined benefit schemes for the IAS 19 disclosures have been carried out by independent qualified actuaries based on updating the most recent funding valuations of the respective schemes, adjusted as appropriate for membership experience and changes in the actuarial assumptions.

The Pension Trust

The Trust closed to future accrual in 2007. The last funding valuation at 31 March 2009 showed a deficit of £50m and the Group agreed with the Trustee to make deficit contributions of £5.8m p.a. plus £0.5m p.a. to cover expenses until 31 March 2019. These amounts are currently being reviewed as part of the 31 March 2012 funding valuation, current forecasts for FY13 include the £5.8m. The assets in the Trust include an interest rate and inflation swap portfolio to remove the majority of the exposure to movements in both variables on a funding valuation measure. The Trust invests in a series of asset classes targeting a return above LIBOR to generate its required payments under the swaps. There is also a small investment in a portfolio of equity call options to retain an exposure to equity markets with limited downside risk.

Other defined benefit schemes

For the Consortium CARE and Platinum schemes, the Group contributed £0.5m in 2012 and expects to contribute £0.4m in 2013. The next funding valuation of the Consortium CARE scheme is due on 31 December 2013. The next funding valuation of the Platinum scheme is due at 31 December 2012.

Our Financials

Notes to the Accounts continued

6. Retirement benefit obligation continued

The principal long-term assumptions used to calculate scheme liabilities on all Group schemes are

% p a	2012	2011
Discount rate	**4 2**	5 4
Inflation assumptions – CPI	**1.9**	2 6
Inflation assumptions – RPI	**2 8**	3 5
Expected return on scheme assets	**3 7**	4 8

	2012		2011	
Life expectancy at age 65	**Male**	**Female**	Male	Female
Member currently aged 65	**21 8**	**24.0**	21 5	23 4
Member currently aged 45	**23.1**	**25.5**	23 4	25 2

A summary of the movements in the net balance sheet asset/(liability) and amounts recognised in the Group Income Statement and Other Comprehensive Income are as follows

£m	Fair value of scheme assets	Defined benefit obligation	Surplus not recognised	Net asset/ (liability) on balance sheet
At 31 August 2010	**408 6**	**(367.4)**	**(41 2)**	**–**
Current service cost	–	(0 1)	–	(0 1)
Interest cost	–	(17 6)	–	(17 6)
Expected return on assets	18 7	–	–	18 7
Total amount recognised in income statement	**18 7**	**(17.7)**	**–**	**1.0**
Actual less expected return on scheme assets	(45 8)	–	–	(45 8)
Actuarial gains on scheme liabilities	–	24 1	–	24 1
Change in surplus not recognised	–	–	14 4	14 4
Amount recognised in other comprehensive income	**(45 8)**	**24 1**	**14.4**	**(7.3)**
Employer contributions	6 3	–	–	6 3
Employee contributions	–	–	–	–
Benefit payments	(12 7)	12 7	–	–
Amounts included in cash flow statement	**(6 4)**	**12.7**	**–**	**6.3**
Business combinations	–	–	–	–
Other changes	**–**	**–**	**–**	**–**
At 31 August 2011	**375.1**	**(348.3)**	**(26.8)**	**–**
Current service cost	–	(0 2)	–	(0 2)
Interest cost	–	(18 6)	–	(18 6)
Expected return on assets	19 8	–	–	19 8
Total amount recognised in income statement	**19.8**	**(18.8)**	**–**	**1 0**
Actual less expected return on scheme assets	34 0	–	–	34 0
Actuarial (losses) on scheme liabilities	–	(28 5)	–	(28 5)
Change in surplus not recognised	–	–	(13 5)	(13 5)
Amount recognised in other comprehensive income	**34 0**	**(28.5)**	**(13 5)**	**(8 0)**
Employer contributions	6 8	–	–	6 8
Employee contributions	–	–	–	–
Benefit payments	(15 1)	15 1	–	–
Amounts included in cash flow statement	**(8 3)**	**15 1**	**–**	**6 8**
Business combinations	12 5	(14 8)	–	(2 3)
Other changes	**12.5**	**(14 8)**	**–**	**(2.3)**
At 31 August 2012	**433.1**	**(395 3)**	**(40 3)**	**(2 5)**

The charge for the current service cost is included within administrative expenses Interest cost and expected return on scheme assets are included within investment revenues

6 Retirement benefit obligation continued

An analysis of the assets at the balance sheet date is detailed below

£m	2012	2011
Swap financing portfolio[1]	**390.5**	310.1
Interest rate and inflation swaps	**(11.5)**	51.6
Equity call options[2]	**41.0**	13.4
Equities (CARE)	**9.2**	–
Bonds and cash (CARE, Platinum)	**3.9**	–
	433.1	375.1

1 Investments with the aim of generating a return above Libor to finance the interest and inflation swaps in the Pension Trust – at 31 August 2012 this comprised £289m in asset and total return swap contracts and £102m in a fund comprising a range of assets from government bonds to hedge funds that targets a return above LIBOR.
2 The equity option portfolio represents a notional upside exposure to equities of around £200m

The actual return on scheme assets during 2012 was a gain of £53.8m (2011: a loss of £27.1m).

The expected rate of return on these investments, calculated as a weighted average of the expected return on the individual asset classes, was 3.7% p.a. at 31 August 2012 (4.8% p.a. at 31 August 2011).

Sensitivity of results to changes in the main assumptions:

Assumption	Change in assumption	Impact on IAS 19 liabilities (£m)
Discount rate	Decrease by 0.5% p.a.	Increase by 36
Rate of inflation	Increase by 0.5% p.a.	Increase by 34
Life expectancy	Increase by 1 year	Increase by 12

The history of experience adjustments is as follows:

£m	2012	2011	2010	2009	2008
Present value of defined benefit obligation	**(395.3)**	(348.3)	(367.4)	(338.1)	(320.1)
Fair value of assets	**433.1**	375.1	408.6	357.4	382.5
Amounts not recognised due to asset limit	**(40.3)**	(26.8)	(41.2)	(19.3)	(62.4)
Surplus/(deficit) in the schemes	**(2.5)**	–	–	–	–
Experience adjustments on scheme liabilities	**(1.0)**	(4.1)	(1.4)	12.5	3.6
Experience adjustments on scheme assets	**34.0**	(45.8)	39.1	(39.6)	48.6

The cumulative amount of actuarial gains and losses recognised in the statement of comprehensive income since the adoption of IFRS is a loss of £28.6m (2011: a loss of £20.6m).

Defined contribution schemes

The Group operates a number of defined contribution schemes. For the year ended 31 August 2012, Company contributions totalled £2.0m (2011: £1.7m) which is included in the Income Statement. The Group expects to make contributions of around £2.5m for the year ending 31 August 2013.

Our Financials

Notes to the Accounts continued

7. Finance income and expense

£m	Note	2012	2011
Interest on bank deposits		–	0 1
Net income on pension scheme	6	**1.2**	1 1
Investment revenues		**1.2**	1 2
Interest on bank overdrafts and loans		**(4.2)**	(3 8)
Interest payable on finance leases		**(0.2)**	(0 2)
Unwinding of discount on provisions		**(0 5)**	(0 3)
Finance costs		**(4 9)**	(4 3)
Net finance costs		**(3 7)**	(3 1)

8. Income tax expense

£m	2012 Underlying	2012 Non-recurring and other items	2012 Total	2011 Underlying	2011 Non-recurring and other items	2011 Total
Current tax	**13.6**	**(1.9)**	**11 7**	11 3	(1 1)	10 2
Adjustment in respect of prior year UK corporation tax	**(1.6)**	**–**	**(1 6)**	(0 5)	0 9	0 4
Total current tax charge	**12 0**	**(1.9)**	**10.1**	10 8	(0 2)	10 6
Deferred tax – current year	**(0 6)**	**(0.4)**	**(1 0)**	(0 4)	–	(0 4)
Total tax on profit	**11 4**	**(2 3)**	**9 1**	10 4	(0 2)	10 2
Effective tax rate	***24.0%***		***24.9%***	*26 9%*		*31 8%*

The effective underlying income tax rate for the year was 24 0% (2011 26 9%) After adjusting for the impact of non-recurring and other items of £2 3m (2011 £0 2m), the effective statutory income tax rate was 24 9% (2011 31 8%)

Reconciliation of the tax charge

£m	2012	2011
Profit before tax	**36 6**	32 1
Tax on profit at the standard rate of UK corporation tax 25% (2011 27%)	**9.2**	8 7
Permanent differences	**1 9**	1 2
Share schemes	**(0.4)**	(0 1)
Adjustment in respect of prior year UK corporation tax	**(1.6)**	0 4
Total tax charge	**9.1**	10 2

Tax charges to other comprehensive income

£m	2012	2011
Current tax relating to the defined benefit pension scheme	**1.8**	2 0
Deferred tax relating to derivative financial instruments	**0.1**	0 4
Deferred tax relating to share-based payments	**0.2**	–
Tax charges to other comprehensive income	**2 1**	2 4

9. Dividends

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

Proposed dividends for the year	2012 Per share	2011 Per share	2012 £m	2011 £m
Final dividend	**5.8p**	5.4p	**10.5**	9.8
Interim dividend	**2.8p**	2.6p	**5.1**	4.7
	8.6p	8.0p	**15.6**	14.5

Recognised dividends for the year	2012 Per share	2011 Per share	2012 £m	2011 £m
Final dividend – prior year	**5.4p**	5.0p	**9.8**	9.1
Interim dividend – current year	**2.8p**	2.6p	**5.1**	4.7
	8.2p	7.6p	**14.9**	13.8

The proposed final dividend for the year ended 31 August 2012 of 5.8p is subject to approval by shareholders at the Annual General Meeting on 24 January 2013 and in line with IAS 10 — 'Events after the reporting period', this dividend has not been included as a liability in these accounts. The proposed dividend, if approved, will be paid on 8 February 2013 to shareholders on the register at close of business on 11 January 2013.

10. Earnings per share

	Earnings £m	2012 Weighted average number of shares million	Per share	Earnings £m	2011 Weighted average number of shares million	Per share
Weighted average number of shares in issue		**183.5**			183.4	
Shares held by the ESOP (weighted)		**(2.2)**			(2.0)	
Basic earnings per share (EPS)						
Underlying earnings attributable to ordinary shareholders	**36.1**	**181.3**	**19.9p**	28.2	181.4	15.5p
Non-recurring items	**(8.6)**			(6.3)		
Earnings attributable to ordinary shareholders	**27.5**	**181.3**	**15.2p**	21.9	181.4	12.1p
Diluted earnings per share (EPS)						
Effect of dilutive securities		**5.8**			2.9	
Diluted underlying EPS	**36.1**	**187.1**	**19.3p**	28.2	184.3	15.3p
Diluted EPS	**27.5**	**187.1**	**14.7p**	21.9	184.3	11.9p

The acquisition of Hedgelane Limited (Note 12) includes £4.0m of deferred share capital payable contingent on profit targets and the continued employment of the former owners of Hedgelane Limited. A maximum of 4.5m shares will be issued on or around January 2014 in satisfaction of the deferred share capital if the financial performance and employment service are met. The weighted effect of the award, being 1.5m shares, is included in diluted EPS.

Our Financials

Notes to the Accounts continued

11 Intangible assets

11(a) Intangible assets

£m	Goodwill	Acquired Intangibles: Customer relationships	Acquired Intangibles: Trade name	Acquired Intangibles: Software	Internally generated development costs	Computer software costs	Total
Cost							
At 1 September 2011	22 0	10 4	2 0	0 5	2 8	23 3	61 0
Additions	–	–	–	–	1 1	1 2	2 3
Acquisition of subsidiaries	21 1	9 3	0 9	0 2	–	0 4	31 9
At 31 August 2012	**43.1**	**19.7**	**2 9**	**0.7**	**3.9**	**24.9**	**95 2**
Accumulated amortisation							
At 1 September 2011	–	1 7	0 3	0 2	1 6	20 3	24 1
Amortisation charge	–	1 7	0 3	0 1	0 7	1 2	4 0
At 31 August 2012	**–**	**3 4**	**0.6**	**0.3**	**2.3**	**21.5**	**28.1**
Net book value at 31 August 2012	**43.1**	**16.3**	**2.3**	**0 4**	**1 6**	**3 4**	**67 1**
Cost							
At 1 September 2010	4 1	3 3	1 3	0 5	2 1	23 5	34 8
Additions	–	–	–	–	0 7	0 1	0 8
Acquisition of subsidiaries	17 9	7 1	0 7	–	–	0 2	25 9
Disposals	–	–	–	–	–	(0 5)	(0 5)
At 31 August 2011	**22 0**	**10 4**	**2 0**	**0.5**	**2 8**	**23 3**	**61 0**
Accumulated amortisation							
At 1 September 2010	–	1 0	0 2	0 1	1 0	19 8	22 1
Amortisation charge	–	0 7	0 1	0 1	0 6	0 9	2 4
Disposal	–	–	–	–	–	(0 4)	(0 4)
At 31 August 2011	**–**	**1 7**	**0.3**	**0.2**	**1 6**	**20.3**	**24.1**
Net book value at 31 August 2011	**22.0**	**8.7**	**1.7**	**0 3**	**1.2**	**3.0**	**36.9**

11(b) Goodwill and intangibles by segment and CGU

Goodwill of £4 1m and acquired intangibles totalling £5 1m arose from the acquisition of the business and assets of Bertrams on 20 March 2009 have been allocated to the Book wholesaling cash generating unit (CGU)

The acquisition of Dawson Holdings PLC on 23 August 2011 resulted in goodwill of £18 1m and acquired intangibles of £7 8m These have been allocated to the three CGUs identified at the time of the acquisition academic book wholesale, media direct, and marketing services

On the acquisition of Hedgelane Limited on 24 April 2012, the Group recognised provisional goodwill of £20 6m and acquired intangibles of £10 4m which have been allocated to the Education and Care cash generating unit

The acquisition of 100% of the issued share capital of Houtschild Internationale Boekhandel B V on 13 June 2012 produced a further £0 3m of goodwill

Goodwill is not amortised, but tested annually for impairment with the recoverable amount being determined from value in use calculations

11. Intangible assets continued

11(b) Goodwill and intangibles by segment and CGU continued

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 for the following 12 months as approved by the Board and extrapolates these cash flows on an estimated growth rate of 1% over a 20 year period The rate used to discount the forecast cash flows is 11%, being the Group's risk adjusted pre-tax WACC, specific for each cash generating unit 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

		Goodwill			Acquired Intangibles			Total		
£m	Date of acquisition	2012	2011	On acquisition	2012	2011	On acquisition	2012	2011	On acquisition
Bertrams	March 2009	**4.1**	4 1	4 1	**2.0**	2 8	5 1	**6 1**	6 9	9 2
Academic books	August 2011	**12.7**	12 2	12 7	**4.6**	5 3	5 3	**17 3**	17 5	18 0
Book wholesaling		**16 8**	16 3	16 8	**6 6**	8 1	10 4	**23 4**	24 4	27 2
Media direct	August 2011	**5 7**	5 7	5 7	**2.2**	2 3	2 3	**7.9**	8 0	8 0
Marketing direct	August 2011	**–**	–	–	**0 2**	0 3	0 3	**0 2**	0 3	0 3
Media and marketing		**5.7**	5 7	5 7	**2.4**	2 6	2 6	**8.1**	8 3	8 3
Education and care (provisional)	April 2012	**20 6**	–	20 6	**10 0**	–	10 4	**30.6**	–	31 0
		43.1	22 0	43 1	**19 0**	10 7	23 4	**62 1**	32 7	66 5

The individual material intangible assets relate to the customer relationships acquired with Dawson Holdings PLC and Hedgelane Ltd The carrying value of these assets at 31 August 2012 is £6 4m, and £9 0m respectively with a remaining amortisation period of 9 and 10 years respectively

Our Financials

Notes to the Accounts continued

12 Acquisitions

2012

Acquisitions made during the year contributed £27 0m to the Group's revenue and £3 6m to the Group's operating profit before intangible amortisation and acquisition related costs

The estimated contributions of acquired businesses to the results of the Group, as if the acquisitions had been made at the beginning of the year, are as follows

	Hedgelane	Houtschild	£m
Revenue	64 0	4 0	68 0
Operating profit before intangible amortisation and acquisition related costs	6 4	0 2	6 6

The net cash outflow in respect of acquisitions in the year comprised

	£m
Cash consideration	**(32.9)**
Net debt acquired	**(5.2)**
Net cash outflow in respect of acquisitions	**(38.1)**
Acquisition related costs – current year acquisitions (recorded in non-recurring items)	**(2 0)**
Acquisition related costs – prior year acquisitions	**–**
Total cash outflow in respect of acquisitions	**(40.1)**

Acquisitions are accounted for under the acquisition method of accounting The Group undertakes a process to identify the fair values of the assets acquired and the liabilities assumed, including the separate identification of intangible assets in accordance with IFRS 3 'Business Combinations' Until this assessment is complete, the allocation period remains open up to the end of the financial year following the relevant acquisition date At 31 August 2012, the allocation period for all acquisitions completed since 1 September 2011 remained open and accordingly the fair values presented are provisional

During the year, the Group completed the following acquisitions which have been accounted for in accordance with IFRS 3 'Business Combinations'

12(a) Hedgelane Limited

On 23 April 2012, Smiths News Holdings Limited acquired 100% of the issued share capital of Hedgelane Limited Hedgelane Limited's main trading subsidiary, the Consortium for Purchasing and Distribution ('The Consortium') is a leading independent distributor of consumable products to the education sector and an emerging participant in the care sector The acquisition is an important step in the Group's diversification strategy of becoming a leading specialist B2B distributor

The initial cash cost of the acquisition was £37 4m, comprising £32m payable to the former owners and the repayment of £5 4m debt immediately after acquisition The initial cash cost of £32m is consideration as defined by IFRS 3 and has been allocated against the identified net assets with the balance recorded as goodwill

IFRS 3 requires that any payments that are contingent on future employment be charged to the income statement £6m of deferred consideration is contingent on profit targets and the continued employment of the former owners of Hedgelane Limited This comprises

- £2m in cash being the fair value of deferred consideration payable conditional on the financial performance and on contract of employment in the 5 month period from 24 April 2012 to 30 September 2012,
- £2m of deferred share capital issuable conditional on the financial performance and continued employment in the 17 month period from 24 April 2012 to 30 September 2013, and
- £2m of deferred share capital issuable conditional on continued employment in the 17 month period from 24 April 2012 to 30 September 2013

12. Acquisitions continued

12(a) Hedgelane Limited continued

The provisional effect of the acquisition on the Group's assets and liabilities is as follows

	Book value £m	Fair value adjustments £m	Provisional fair value £m
Net assets acquired were:			
Goodwill	2.1	(2.1)	–
Acquired intangibles	–	10.4	10.4
Property, plant and equipment	6.6	(0.4)	6.2
Stock	7.9	–	7.9
Trade and other receivables	7.1	–	7.1
Trade and other payables	(9.9)	–	(9.9)
Deferred tax	–	(3.0)	(3.0)
Net cash	(5.4)	–	(5.4)
Pensions	(1.4)	(0.5)	(1.9)
Net assets acquired	7.0	4.4	11.4
Goodwill			20.6
Total consideration			32.0
Satisfied by:			
Cash consideration			32.0
Contingent payments to former owners			6.0
Net debt acquired			5.4
Acquisition related costs			2.0
Total expected spend			45.4

The goodwill of £20.6m arising from the acquisition represents future opportunities in the distribution of education and care consumable products. None of the provisional goodwill is expected to be deductible for corporation tax purposes.

The potential undiscounted amount of all future payments that Smiths News PLC could be required to make under the contingent consideration arrangement, which has been measured based on current expectations of future performance is between £4m and £6m and the fair value is £6m.

On 19 April 2012, Hedgelane Limited acquired the catalogue business of West Mercia Supplies ('WMS') from public sector ownership. Based in Shrewsbury, with 93 employees, WMS adds a leading position in the West Midlands and scale to The Consortium business along with the opportunity to deliver synergy benefits to the combined business. As the transaction occurred prior to Smiths News PLC acquiring Hedgelane Limited, the results, consideration, goodwill and fair values of WMS are included in the presentation of Hedgelane Limited above.

The acquired trade and other receivables have a fair value of £7.1m and a gross contractual value of £7.3m. The best estimate at the acquisition date of the contractual cashflows not to be collected is £0.2m.

Our Financials

Notes to the Accounts continued

12 Acquisitions continued

12(b) Other acquisitions

On 13 June 2012, the Group acquired 100% of the issued share capital of Houtschild Internationale Boekhandel B V ('Houtschild') via Dawson Books Ltd, a subsidiary of Bertram Trading Ltd

Houtschild, based in the Netherlands, is a leading supplier of books and journals into both academic libraries and Government Institutions across Northern Europe The acquisition provides additional scale, infrastructure and expertise as well as greater access to key customers and geographies which is consistent with our stated international expansion strategy and will further facilitate Dawsons' digital expansion outside of the UK We believe the combination will deliver synergy benefits once the integration process is complete

The consideration was £0 9m and net cash received was £0 2m The provisional fair value of net assets acquired totalled £0 6m

The acquisition gives rise to £0 3m goodwill relating to future opportunities in the provision of academic book wholesaling None of the provisional goodwill recognised is expected to be deductible for income tax purposes Due to the immaterial nature of this acquisition, full disclosures under IFRS 3 are not presented

2011

On 23 August 2011, the Group acquired 100% of the share capital of Dawson Holdings PLC The fair values were finalised during 2012 and the resultant effect of the acquisition on the Group's assets and liabilities is as follows

	Provisional opening balance sheet £m	Fair value adjustments £m	Fair value of assets acquired £m
Net assets acquired	2 7	(0 2)	2 5
Goodwill	17 9	0 2	18 1
Total consideration	**20.6**		**20.6**

Dawson Holdings PLC contributed £76 6m to revenue and £4 3m to the Group's operating profit before intangible amortisation and acquisition related costs in the year

13. Disposals

On 27 June 2012, the Group disposed of a 12 6% stake in eBooks Corporation Limited for £1m The profit on disposal is £0 5m Due to the nature and size of the disposed investment, it has not been separately disclosed as a discontinued operation as defined by IFRS 5

A cash inflow of £1 0m is included in the Consolidated Cash Flow Statement

14 Property, plant and equipment

£m	Land & Buildings: Freehold properties	Land & Buildings: Long-term leasehold	Land & Buildings: Short-term leasehold	Fixtures & fittings	Equipment & vehicles	Total
Cost:						
At 1 September 2011	–	0 3	12 2	8 9	25 1	46 5
Additions	–	–	1 5	0 5	3 6	5 6
Acquisition of subsidiary	4 9	0 1	–	2 6	2 2	9 8
Disposals	–	–	(1 3)	(0 9)	(1 4)	(3 6)
At 31 August 2012	**4 9**	**0.4**	**12.4**	**11.1**	**29 5**	**58 3**
Accumulated depreciation:						
At 1 September 2011	–	0 2	8 6	3 7	15 3	27 8
Depreciation charge	–	–	0 7	0 9	3 3	4 9
Acquisition of subsidiary	0 4	0 1	–	1 9	1 6	4 0
Disposals	–	–	(1 1)	(0 7)	(1 1)	(2 9)
At 31 August 2012	**0 4**	**0 3**	**8.2**	**5.8**	**19 1**	**33.8**
Net book value at 31 August 2012	**4 5**	**0 1**	**4.2**	**5 3**	**10 4**	**24 5**
Cost:						
At 1 September 2010	–	0 4	12 8	9 6	38 9	61 7
Additions	–	–	0 6	0 4	1 7	2 7
Acquisition of subsidiary	–	–	0 1	0 2	–	0 3
Inter-segment transfer	–	–	–	(0 9)	0 9	–
Disposals	–	(0 1)	(1 3)	(0 4)	(16 4)	(18 2)
At 31 August 2011	**–**	**0.3**	**12 2**	**8 9**	**25.1**	**46 5**
Accumulated depreciation:						
At 1 September 2010	–	0 2	9 2	4 2	27 1	40 7
Depreciation charge	–	0 1	0 7	0 5	4 0	5 3
Inter-segment transfer	–	–	–	(0 6)	0 6	–
Disposals	–	(0 1)	(1 3)	(0 4)	(16 4)	(18 2)
At 31 August 2011	**–**	**0 2**	**8.6**	**3.7**	**15.3**	**27 8**
Net book value at 31 August 2011	**–**	**0.1**	**3 6**	**5 2**	**9.8**	**18 7**

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 £2 4m at 31 August 2012 (2011 £1 8m)

Our Financials

Notes to the Accounts continued

15. Interests in jointly controlled entities and associates

The Group has no associate entities The Group's share of the results, assets and liabilities of jointly controlled entities is as follows

£m	2012	2011
Revenue	**8 4**	7 7
Profit after tax	**0.3**	0 3
Non-current assets	**1 2**	0 7
Current assets	**1.9**	1 7
Total assets	**3.1**	2 4
Current liabilities	**(1.6)**	(1 1)
Non-current liabilities	**(0 5)**	(0 3)
Total liabilities	**(2.1)**	(1 4)
Goodwill	**2.9**	2 9
Share of net assets	**3.9**	3 9

The jointly controlled ventures and associates of the Group are as follows

FMD Limited	The Group has a 50% investment in FMD Limited, the holding company of Worldwide Magazine Distribution Limited, a company incorporated in England (2011 50%) The latest statutory accounts of FMD Limited were drawn up to 30 April 2012
Rascal Solutions Limited	The Group has a 50% interest in the ordinary shares of Rascal Solutions Limited, a company incorporated in England The latest statutory accounts of Rascal Solutions Limited were drawn up to 31 August 2012
Bluebox Avionics Limited	The Group has a 50% interest in the ordinary shares of Bluebox Avionics Limited, a company incorporated in England The latest statutory accounts of Bluebox Avionics Limited were drawn up to 30 September 2011 Bluebox Avionics Limited is part of the Dawson Holdings PLC Group, acquired on 23 August 2011

16. Investments

£m	2012	2011
Unlisted investments at fair value	**-**	0 1

The shares included above represent an investment in unlisted equity securities During the year the Group held a non-controlling interest of 12 6% in eBooks Corporation Ltd (Australia) acquired as part of the acquisition of Dawson Holdings PLC on 23 August 2011 These shares were sold on 27 June 2012 (Note 13)

17. Inventories

£m	2012	2011
Goods held for resale	**44 6**	34 7

18. Trade and other receivables

£m	2012	2011
Trade receivables	**98.7**	90.2
Allowance for doubtful debts	**(0.9)**	(1.4)
	97.8	88.8
Other debtors	**13.2**	14.2
Prepayments and accrued income	**9.3**	6.7
Trade and other receivables	**120.3**	109.7

Trade receivables

Total trade receivables net of allowances for doubtful debts held by the Group at 31 August 2012 amounted to £97.8m (2011 £88.8m), comprising the amounts presented above

The average credit period taken on sales of goods is 23 days (2011 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

The directors believe that there is no further credit provision required in excess of the allowance for doubtful debts

Included in the outstanding trade receivables balance are debtors with an overdue amount of £6.1m (2011 £0.1m) that the Group 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	2012	2011
30–60 days	**3.9**	0.1
60–90 days	**1.4**	–
90–120 days	**0.3**	–
Over 120 days	**0.5**	–
	6.1	0.1

Included within the 2012 number is an expected seasonal peak of £3.8m largely within the 30 day ageing relating to the recently acquired Consortium business

Of the trade receivables balance at the end of the year

- Two (2011 three) customers had an individual balance that represented more than 10% of the total trade receivables balance The total of these was £30.3m (2011 £39.8m)
- A further three (2011 four) customers had individual balances that represented more than 5% of the total trade receivables balance The total of these was £23.0m (2011 £23.6m)

Movement in the allowance for doubtful debts

£m	2012	2011
At 1 September	**1.4**	0.6
Impairment losses recognised	**0.5**	2.5
Acquisition of subsidiary	**0.1**	1.1
Amounts written off as uncollectable	**(0.7)**	(2.8)
Amounts recovered during the year	**(0.4)**	–
At 31 August	**0.9**	1.4

Notes to the Accounts continued

18. Trade and other receivables continued

Ageing of past due and impaired trade receivables

£m	2012	2011
30–60 days	**0.1**	0 3
60–90 days	**0.1**	–
90–120 days	**0.1**	1 1
Over 120 days	**0.6**	–
	0.9	1 4

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

Other debtors and prepayments

The largest items included within this balance are £6 4m of publisher debtors and £3 1m of accrued revenue

19. Assets held for sale

£m	2012	2011
Assets held for sale	**–**	0 8

The sale of the former Bertrams Library Services warehouse in Leeds was completed on 11 October 2011 with nil loss or gain

20 Trade and other payables

£m	2012	2011
Trade payables	**140.1**	143 5
Other tax and social security	**4.6**	3 0
Other creditors	**15 4**	14 0
Accruals and deferred income	**21.9**	19 6*
	182.0	180 1

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs The average credit period taken for trade purchases is 31 days (2011 33 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

* £1 3m of accruals in the prior year have been restated within provisions due within one year to agree with current year treatment

21. Cash and borrowings

Cash and borrowings by currency (Sterling equivalent) are as follows

£m	Sterling	Euro	USD	Other	**Total 2012**	2011
Cash and cash equivalents	2.8	1.8	0.3	0.2	**5.1**	4.2
Term loan – disclosed within current liabilities	(3.0)	–	–	–	**(3.0)**	–
Term loan – disclosed within non-current liabilities	(37.0)	–	–	–	**(37.0)**	(39.2)
Revolving credit facility	(60.1)	–	–	–	**(60.1)**	(24.4)
Asset backed facility	(3.0)	–	–	–	**(3.0)**	(1.6)
Total borrowings	(103.1)	–	–	–	**(103.1)**	(65.2)
Net borrowings	(100.3)	1.8	0.3	0.2	**(98.0)**	(61.0)
Total borrowings						
Amount due for settlement within 12 months	(66.1)	–	–	–	**(66.1)**	(26.0)
Amount due for settlement after 12 months	(37.0)	–	–	–	**(37.0)**	(39.2)
	(103.1)	–	–	–	**(103.1)**	(65.2)

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 to their fair value

Included within cash is £0.4m of restricted cash (2011 £0.3m)

The asset backed facility is secured by a floating charge over certain of the Group's trade receivables

Available Group bank facilities are outlined in Note 22 At 31 August 2012, the Group had £76.9m (2011 £84.8m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met

22. Financial instruments

Treasury policy

The Group operates a centralised treasury function to manage the Group's funding requirements and financial risks in line with the Board approved treasury policies and procedures and their delegated authorities Treasury's role is to ensure that appropriate financing is available for running the businesses of the Group on a day-to-day basis, allowing for investments and acquisitions whilst minimising interest cost No transactions of a speculative nature are undertaken Dealings are restricted to those banks with suitable credit ratings and counterparty risk and credit exposure is monitored frequently

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, cash and cash equivalents as disclosed in Note 21 and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the Group Statement of Changes in Equity

The gearing ratio at the year end is as follows

£m	Note	**2012**	2011
Net borrowings	21	**98.0**	61.0
Market capitalisation		**212.8**	156.1
Net debt to equity ratio		**46.1%**	39.1%

Notes to the Accounts continued

22. Financial instruments continued

Liquidity risk

The Group manages liquidity risk by maintaining adequate reserves and banking facilities and by monitoring forecast and actual cash flows The facilities that the Group has at its disposal to further reduce liquidity risk are as follows

As at 31 August 2012, the Group had £180m committed bank facilities in place (2011 £150m) This reduced to £177m in September 2012 following a £3m scheduled debt repayment

Bank facilities comprise

- a £40m syndicated term loan of which £3m is repayable in September 2012 and September 2013, £4m is repayable in September 2014 with the balance repayable in November 2014,
- a £95m syndicated revolving credit facility is in place which is also repayable in November 2014,
- a £10m bilateral revolving credit facility entered into in July 2012 and repayable in August 2014,
- a committed asset backed facility of up to £15m, secured against the debtors of Bertrams This facility was put in place at the time of the acquisition of Bertrams and is repayable in November 2014, and
- a committed asset backed facility of up to £20m, secured against the debtors of Smiths News This facility was put in place at the time of the acquisition of Hedgelane Limited (April 2012) and is repayable in November 2014

At 31 August 2012, the Group had available £76 9m (2011 £84 8m) of undrawn committed borrowing facilities There were no breaches of the loan agreement during either the current or prior years

The £30m of additional bank facilities entered into during the financial year enhances the Group's ability to manage 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 £25m

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

£m	Due within 1 year	Due between 1 and 2 years	Due between 2 and 3 years	Greater than 3 years
At 31 August 2012				
Non-derivative financial liabilities				
Bank and other borrowings	**(66.1)**	**(3 0)**	**(34 0)**	**–**
Finance leases	**(1.4)**	**(1 1)**	**–**	**–**
Derivative and other financial liabilities				
Net settled derivative contracts – receipts	**0.3**	**0.3**	**0 1**	**–**
Net settled derivative contracts – payments	**(1.4)**	**(1.4)**	**(0 2)**	**–**
Total	**(68.6)**	**(5 2)**	**(34 1)**	**–**
At 31 August 2011				
Non-derivative financial liabilities				
Bank and other borrowings	(26 0)	(3 0)	(3 0)	(34 0)
Finance leases	(1 2)	(1 3)	–	–
Derivative and other financial liabilities				
Net settled derivative contracts – receipts	0 3	0 3	0 3	0 1
Net settled derivative contracts – payments	(0 9)	(0 9)	(0 9)	(0 4)
Total	(27 8)	(4 9)	(3 6)	(34 3)

22. Financial instruments continued

Counterparty risk

Dealings are restricted to those banks with suitable credit ratings and counterparty risk and credit exposure is monitored

Foreign currency risk

- The Group does not hedge the translation effect of exchange rate movements on the income statement The majority of the Group's transactions are however carried out in the functional currencies of its operations, and so transactional exposure is limited
- The majority of the Group's net assets are held in Sterling, with only £2 5m of net assets held in overseas currencies Translation exposure arises on the retranslation of overseas subsidiaries' profits and net assets into Sterling for financial reporting purposes and is not seen as significant
- Note 21 denotes borrowings by currency
- There are no material currency exposures to disclose

Interest rate risk

The Group regularly monitors its exposure to interest rate risk The Group uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings 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 As at 31 August 2012, 60% of the Group's borrowings were at fixed rates

It is, and has been throughout the period of review, the Group's policy that no trading in Derivative Financial Instruments shall be undertaken

Hedge accounting

There are interest rate hedges in place until November 2014 stated at an average effective rate of 3 7%, which at 31 August 2012 covered £60m of the core debt

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	
	2012	2011	**2012**	2011	**2012**	2011
Outstanding receive floating, pay fixed contracts						
Less than 1 year	**2.2%**	2 2%	**£60.0m**	£60 0m	**(£1.0m)**	(£0 6m)
2 to 5 years	**2 2%**	2 2%	**£60.0m**	£60 0m	**(£1 3m)**	(£1 5m)

The interest rate swaps are settled on a monthly basis The floating rate on the interest rate swaps is 1 month LIBOR The Group settles 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

All derivative financial instruments are classified as level 2 based upon the degree to which the fair value movements are observable Level 2 fair value measurements are defined as those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (prices from third parties) or indirectly (derived from third party prices)

Our Financials

Notes to the Accounts continued

22 Financial instruments continued

Hedge accounting continued

£m	Current 2012	Current 2011	Non-current 2012	Non-current 2011
Derivatives that are designated and effective as hedging instruments carried at fair value				
Interest rate swaps	**(1 0)**	(0 6)	**(1.3)**	(1 5)
	(1 0)	(0 6)	**(1.3)**	(1 5)

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 assumes 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 and equity for the year ended 31 August 2012 would decrease/increase by £0 4m (2011 £0 4m)

Credit risk

The Group considers its exposure to credit risk at 31 August 2012 to be as follows

£m	2012	2011
Bank deposits	**5 1**	4 2
Trade receivables	**97 8**	88 8
	102 9	93 0

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 18 to the Accounts

23 Obligations under finance leases

£m	2012 Minimum lease payments	2012 Present value of minimum lease payments	2011 Minimum lease payments	2011 Present value of minimum lease payments
Amount payable under finance leases				
Within one year	**1.5**	**1 4**	1 2	1 1
In the second to fifth years inclusive	**1 2**	**1.1**	1 3	1 2
Total	**2 7**	**2 5**	2 5	2 3
Less future finance charges	**(0.2)**	**–**	(0 2)	–
Present value of lease obligations	**2.5**	**2.5**	2 3	2 3
Less Amount due for settlement within 12 months (shown under current liabilities)		**(1.4)**		(1 1)
Amount due for settlement after 12 months		**1.1**		1 2

Group policy is to acquire certain of its fixtures and equipment under finance leases The average lease term is 3 9 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 to their carrying amount

24. Other non-current liabilities

£m	2012	2011
Other creditors	**2.5**	0.5

25 Deferred tax

Deferred tax is provided under the balance sheet liability method using a tax rate of 23% (last year 26%) for UK differences and local tax rates for overseas differences

Deferred tax assets and liabilities are attributable to the following

£m	Accelerated tax depreciation	Other	Share-based payments	Intangible assets	Total
At 1 September 2011	(0.4)	1.0	0.5	(2.2)	(1.1)
Charge to income	0.1	–	0.2	0.5	0.8
Charge to other comprehensive income	–	0.1	0.2	–	0.3
Acquisition of subsidiary	0.1	–	–	(2.4)	(2.3)
At 31 August 2012	**(0.2)**	**1.1**	**0.9**	**(4.1)**	**(2.3)**
Deferred tax assets	0.3	1.2	0.9	–	2.4
Deferred tax liabilities	(0.5)	(0.1)	–	(4.1)	(4.7)
At 1 September 2010	(0.6)	(0.1)	0.5	(0.1)	(0.3)
Charge to income	0.3	0.1	–	–	0.4
Charge to other comprehensive income	–	0.5	–	(0.1)	0.4
Acquisition of subsidiary	(0.1)	0.5	–	(2.0)	(1.6)
At 31 August 2011	**(0.4)**	**1.0**	**0.5**	**(2.2)**	**(1.1)**
Deferred tax assets	1.5	1.0	0.5	–	3.0
Deferred tax liabilities	(1.9)	–	–	(2.2)	(4.1)

The Company has capital losses carried forward of £23 9m (2011 £23 9m) Deferred tax assets have not been recognised in respect of the capital losses carried forward due to the uncertainty of their utilisation

Further details of derivative financial instruments are provided in Note 22

The UK government's budget statements in March 2011 and March 2012 announced a phased reduction in the main UK corporation tax rate from 28% to 22%, with the first 2% reduction taking effect from 1 April 2011 being substantively enacted on 29 March 2011 The second 2% reduction taking effect from 1 April 2012, bringing the overall main UK corporation tax rate to 24%, was substantively enacted on 26 March 2012 A further reduction to 23% was substantively enacted on 3 July 2012 This rate reduction has no material impact on the financial statements as at 31 August 2012 No account will be taken of the expected further 1% reduction in UK tax rates until substantive enactment of that change

Notes to the Accounts continued

26 Provisions

£m	Reorganisation provisions	Insurance* provisions	Deferred consideration	Property provisions	Total
Gross provision.					
At 1 September 2011	1 3	1 3	–	9 9	12 5
Additions	0 8	0 3	2 1	3 6	6 8
Acquisition of subsidiary	–	–	–	–	–
Utilised in year	(1 8)	(0 3)	–	(2 7)	(4 8)
At 31 August 2012	**0.3**	**1 3**	**2.1**	**10.8**	**14.5**
Discount					
At 1 September 2011	–	–	–	(2 2)	(2 2)
Additions	–	–	–	(0 3)	(0 3)
Unwinding of discount utilisation	–	–	–	0 5	0 5
At 31 August 2012	**–**	**–**	**–**	**(2.0)**	**(2.0)**
Net book value at 31 August 2012	**0 3**	**1 3**	**2.1**	**8.8**	**12.5**
Gross provision:					
At 1 September 2010	1 3	–	–	7 8	9 1
Additions	2 7	–	–	3 4	6 1
Acquisition of subsidiary	–	–	–	0 4	0 4
Reclassified from accruals	–	1 3	–	–	1 3
Utilised in year	(2 7)	–	–	(1 7)	(4 4)
At 31 August 2011	**1.3**	**1 3**	**–**	**9.9**	**12.5**
Discount.					
At 1 September 2010	–	–	–	(2 2)	(2 2)
Additions	–	–	–	(0 3)	(0 3)
Unwinding of discount utilisation	–	–	–	0 3	0 3
At 31 August 2011	**–**	**–**	**–**	**(2.2)**	**(2.2)**
Net book value at 31 August 2011	**1 3**	**1.3**	**–**	**7.7**	**10.3**

£m	2012	2011
Included within current liabilities	**7.8**	5 4
Included within non-current liabilities	**4 7**	4 9
Total	**12 5**	10 3

* Included within provisions for the year ended 31 August 2011 is £1 3m of insurance provisions which have been reclassified from accruals

26. Provisions continued

The property provision represents the estimated future cost of the Group's onerous and reversionary leases in non-trading properties based on known and estimated rental sub-leases. This provision has been discounted at 8%, 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.

Insurance provisions represent the expected future costs of employer's liability, public liability and motor accident claims.

Deferred consideration relates to amounts provided in relation to the acquisition of Hedgelane Ltd on 23 April 2012. The cost is contingent upon future employment and is being recognised in line with the relevant time periods, see Note 12a for further details.

27. Contingent liabilities and capital commitments

£m	**2012**	2011
Bank and other loans guaranteed	**3.6**	2.9

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 in respect of assignment prior to demerger, 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 2012 of £10.9m (2011: £13.9m), this excludes the reversionary lease provision included within property provisions in Note 26.

Contracts placed for future capital expenditure approved by the directors but not provided for amount to: £nil (2011: £nil).

28. Operating lease commitments

The Group as lessee

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

	2012			2011		
£m	**Land & buildings**	**Equipment & vehicles**	**Total**	Land & buildings	Equipment & vehicles	Total
Within one year	**10.0**	**1.3**	**11.3**	9.9	1.6	11.5
In the second to fifth years inclusive	**28.9**	**1.8**	**30.7**	29.3	1.7	31.0
In more than five years	**29.6**	**–**	**29.6**	27.4	–	27.4
	68.5	**3.1**	**71.6**	66.6	3.3	69.9

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

The Group as lessor:

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

£m	**2012**	2011
Within one year	**–**	0.2
In the second to fifth years inclusive	**0.2**	0.2
	0.2	0.4

Property rental income earned during the year was £0.2m (2011: £0.4m).

Our Financials

Notes to the Accounts continued

29 Net cash inflow from operating activities

£m	2012	2011
Operating profit	**40.3**	35 2
Acquisition costs	**2.0**	1 7*
Profit on sale of investment	**(0.5)**	–
	41 8	36 9
Adjustment for pension funding	**(6 8)**	(6 2)
Depreciation of property, plant and equipment	**4.9**	5 3
Amortisation of intangible assets	**4.0**	2 4
Share-based payments	**1.8**	0 9
(Increase)/decrease in inventories	**(2.0)**	3 7
(Increase)/decrease in receivables	**(3.1)**	1 8
Decrease in payables	**(6 3)**	(19 0)
Income tax paid	**(8 0)**	(1 7)
Increase in provisions	**2 2**	1 1*
Net cash inflow from operating activities	**28 5**	25 2

* Amounts have been reclassified from the prior year to agree with the current year presentation

30 Called up share capital

(a) Share Capital

£m	2012	2011
Authorised:		
300 0m ordinary shares of 5p each	**15 0**	15 0
Issued and fully paid.		
183 5m ordinary shares of 5p each (2011 183 4m)	**9.2**	9 2

(b) Movement in share capital

£m	Ordinary shares of 5p each
31 August 2011	9 2
Issue of share capital in relation to Sharesave Scheme	–
At 31 August 2012	**9.2**

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 general meetings of the Company The Company has one class of ordinary shares, which carry no right to fixed income

During the year 77,482 (2011 77,262) ordinary 5p shares were issued for a consideration of £65,306 (2011 £64,875), resulting in a share premium of £61,432 (2011 £61,012)

The concept of authorised share capital was repealed by the Companies Act 2006 with effect from 1 October 2009, and on 15 January 2010, the Company passed a Special Resolution disapplying the existing provisions of its Memorandum of Association from applying to its Articles of Association

(c) Share Premium

£m	2012	2011
Balance at 1 September	**0 5**	0 4
Issue in relation to Sharesave Scheme	**0 1**	0 1
Balance at 31 August	**0.6**	0 5

31 Reserves

(a) Other Reserve

£m	2012	2011
At 1 September	**280.1**	280 1
At 31 August	**280 1**	280 1

This relates to reserves created following the capital reorganisation undertaken as part of the demerger of WH Smith PLC in 2006 The balance represented the difference between the share capital and reserves of the Group restated on a pro-forma basis as at 31 August 2004 and the previously reported share capital

(b) ESOP Reserve

£m	2012	2011
Balance at 1 September 2011	**(2 6)**	(2 4)
Acquired in the period	**(0 8)**	(0 4)
Disposed of on exercise of options	**1.7**	0 2
Balance at 31 August 2012	**(1.7)**	(2 6)

The ESOP reserve represents the cost of shares in Smiths News PLC purchased in the market and held by the Smiths News PLC Employee Benefit Trust to satisfy options under the Group's share option schemes (see Note 33) The number of ordinary shares held by the Trust at 31 August 2012 was 1,830,696 (2011 2,470,835)

At 31 August 2012 these shares had a market value of £1 16 each

(c) Hedging Reserve

£m	2012	2011
Balance at 1 September	**(2 1)**	(0 5)
Loss recognised on cash flow hedges	**(0 2)**	(1 6)
Balance at 31 August	**(2 3)**	(2 1)

The hedging reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges The cumulative deferred gain or loss on the hedging instrument is recognised in the profit or loss only when the hedged transaction impacts the profit or loss, i e the portion of the hedge deemed ineffective

32. Retained Earnings

	£m
Balance at 1 September 2010	211 0
Total comprehensive income for the year	17 0
Dividends paid	(13 8)
Employee share schemes	(0 2)
Credit for equity-settled share-based payments	0 9
Balance at 31 August 2011	**214 9**
Total comprehensive income for the year	21 6
Dividends paid	(14 9)
Employee share schemes	(0 9)
Credit for equity-settled share-based payments	1 8
Balance at 31 August 2012	**222.5**

Notes to the Accounts continued

33 Share-based payments

The Group recognised total expenses of £1 8m in 2012 (2011 £0 9m) related to equity-settled share-based payment transactions

Average share price throughout the year was 93 4p (2011 98 1p)

The Group operates the following share incentive schemes

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 HM Revenue & Customs 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
Executive share option schemes (ESOS)	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 base salary The exercise of options is conditional on the achievement of a three year performance target, which is determined by the Remuneration Committee at the time of grant Provided that the target is met, options are normally exercisable until the day preceding the tenth anniversary of the date 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
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 three year performance condition, which is determined by the Remuneration Committee at the time of grant Subject to the satisfaction of the performance condition, awards are normally exercisable until the tenth anniversary of the date of grant
Deferred Bonus Plan (DBP)	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 and Economic Profit Plan performance targets Awards are normally exercisable after two years subject to continued employment

Further details of the above schemes, and details of the Annual Bonus Plan and Economic Profit Plan,can be found in the Remuneration Report on pages 64 to 74

33. Share-based payments continued

Details of the options/awards are as follows

	Sharesave		ESOS		LTIP		DBP	
Number of options/ awards	**No. of shares**	**Weighted average exercise price**	**No. of shares**	**Weighted average exercise price**	**No of shares**	**Weighted average exercise price**	**No. of shares**	**Weighted average exercise price**
At 1 Sept 2010	2,969,547	88 9p	7,648,378	89 2p	2,507,467	–	428,694	–
Granted	884,548	80 7p	1,713,679	92 2p	998,730	–	636,878	–
Exercised	(77,262)	84 0p	(655,169)	86 7p	–	–	–	–
Expired/Forfeited	(728,132)	89 8p	(1,682,380)	108 0p	(1,055,009)	–	–	–
At 31 Aug 2011	3,048,701	86 4p	7,024,508	85 7p	2,451,188	–	1,065,572	–
Granted	866,260	78 6p	1,581,866	93 9p	869,486	–	480,776	–
Exercised	(77,482)	84 3p	(1,655,979)	68 1p	(335,323)	–	(428,694)	–
Expired/Forfeited	(983,504)	88 6p	(337,813)	96 7p	(674,457)	–	–	–
At 31 Aug 2012	2,853,975	83 4p	6,612,582	91 5p	2,310,894	–	1,117,654	–
Exercisable at 31 Aug 2012	**–**	**–**	**2,201,427**	**80 1p**	**–**	**–**	**–**	**–**
Exercisable at 31 Aug 2011	372,826	85 0p	2,190,161	86 3p	–	–	–	–

The weighted average remaining contractual life in years of options/awards is as follows

	Sharesave	ESOS	LTIP	DBP
Outstanding at 31 August 2012	**1.5**	**8.5**	**8.6**	**0.6**
Outstanding at 31 August 2011	2 7	6 9	8 7	1 7

Details of the options/awards granted or commencing during the current and comparative year are as follows

	Sharesave	ESOS	LTIP	DBP
During 2012·				
Effective date of grant or commencement date	**May 2012**	**Nov 2011**	**Nov 2011**	**Nov 2011**
Average fair value at date of grant or scheme commencement	**13.4**	**12.3**	**76 3**	**79.0**
During 2011				
Effective date of grant or commencement date	Jun 2011	Jun 2011	Aug 2011	Aug 2011
Average fair value at date of grant or scheme commencement	11 4	13 0	70 6	70 6

The options outstanding at 31 August 2012 had exercise process ranging from nil to 107 5p (2011 nil to 107 5p)

The weighted average share price on the date of exercise was 97p (2011 112p)

The sharesave and ESOS options granted during each period have been valued using a Black-Scholes model, the LTIP and DBP schemes are valued by reference to the share price at the date of grant discounted by the estimated dividend yield percentage

Our Financials

Notes to the Accounts continued

33. Share-based payments continued

The inputs to the Black-Scholes model are as follows

	Sharesave	ESOS	LTIP	DBP
2012 options/awards:				
Share price at grant date – pence	**93 5**	**93.9**	**91.5**	**94.8**
Exercise price – pence	**78.6**	**93.9**	**–**	**–**
Expected volatility – %	**29 0**	**35.0**	**–**	**–**
Expected life – years	**3 0**	**3 0**	**–**	**–**
Risk free rate – %	**1.25**	**2 13**	**–**	**–**
Expected dividend yield – %	**8.7**	**8 7**	**8.7**	**8.7**
Weighted average fair value – pence	**13 4**	**12.3**	**76.3**	**79 0**
2011 options/awards				
Share price at grant date – pence	100 9	92 2	84 7	84 7
Exercise price – pence	80 7	92 2	–	–
Expected volatility – %	35 0	35 0	–	–
Expected life – years	3 0-5 0	3 0	–	–
Risk free rate – %	3 4	3 4	–	–
Expected dividend yield – %	8 7	8 7	8 7	8 7
Weighted average fair value – pence	11 4	13 0	70 6	70 6

34. 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

Transactions with the Group's pension schemes are disclosed in Note 6

Trading transactions

	Sales to related parties		Amounts owed by related parties	
£m	**2012**	2011	**2012**	2011
Jointly controlled entities	**1.1**	0 4	**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

	Loan to related parties	
£m	**2012**	2011
Jointly controlled entities	**0.9**	0 6

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

34. Related party transactions continued

Aggregate remuneration of key management personnel

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

£m	2012	2011
Short-term employee benefits	**3.1**	1.8
Post-employment benefits	**–**	–
Share-based payments	**1.1**	0.8
	4.2	2.6

Information concerning directors' remuneration, interest in shares and share options is included in the Remuneration Report on pages 64 to 74

Directors' transactions

There are no other transactions with directors

35. Principal subsidiary undertakings and associated undertakings

Name	Country of incorporation/registration	Proportion of ownership interest
Bertram Trading Limited	England	100%
Bluebox Avionics Limited*	England	50%
Dawson Books Limited	England	100%
Dawson Espana Agenciede Ediciones SL	Spain	100%
Dawson France SAS	France	100%
Dawson Holdings Ltd	England	100%
Dawson Marketing Services Limited	England	100%
Dawson Media Direct Limited	England	100%
DMD China Limited	Hong Kong	100%
DMD G m b h	Germany	100%
DMD Inc	USA	100%
DMD NV	Belgium	99%
DMD SAS	France	100%
Hedgelane Limited*	England	100%
Marketlink Marketing Communications Limited	England	100%
Phantom Media Limited	England	100%
Rascal Solutions Limited*	England	50%
Smiths News Holdings Limited	England	100%
Smiths News Trading Limited	England	100%
The Consortium for Purchasing and Distribution Ltd*	England	100%

Except as marked all of the above are subsidiaries of Smiths News PLC Those marked with an asterisk are jointly controlled entities, for details of which see Note 15 to the Group accounts

A full list of subsidiary companies is available from the Company's registered office

* Companies have a year end of 30 September 2012 in line with their historic pre-acquisition year end timetable

Our Financials

Five Year Financial Summary

Group income statement

	12 months to				
£m	**31 August 2012**	31 August 2011	31 August 2010	31 August 2009	31 August 2008
Revenue	**1,803 9**	1,734 4	1,829 6	1,326 0	1,240 6
Operating profit before non-recurring items	**51.2**	41 7	37 1	32 4	36 0
Non-recurring items	**(10 9)**	(6 5)	(6 9)	(10 8)	0 1
Operating profit	**40.3**	35 2	30 2	21 6	36 1
Net finance charges	**(3 7)**	(3 1)	(2 1)	(3 2)	(3 5)
Profit before tax	**36.6**	32 1	28 1	18 4	32 6
Income tax expense	**(9 1)**	(10 2)	(6 9)	(0 7)	(6 1)
Profit for the period	**27 5**	21 9	21 2	17 7	26 5
Statutory earnings per share					
Basic	**15 2p**	12 1p	11 7p	9 9p	14 8p
Diluted	**14.7p**	11 9p	11 5p	9 9p	14 7p
Underlying Earnings per share					
Basic – continuing operations	**19 9p**	15 5p	14 6p	13 8p	14 5p
Diluted	**19 3p**	15 3p	14 4p	13 8p	14 5p
Dividend per share	**8.6p**	8 0p	7 4p	6 7p	6 4p
Dividend paid (£m)	**14 9**	13 8	12 6	12 0	11 7
Leverage					
Free cash flow	**27 2**	22 5	20 4	23 7	21 3
Operating cash flow	**28 5**	25 2	24 7	31 9	28 7
Total net debt	**(100 5)**	(63 3)	(48 0)	(49 5)	(44 0)
Net debt/EBITDA (covenant 2 5×)	**1.6**	1 3	1 1	1 3	1 0
Interest cover (covenant 3×)	**12.9**	14 2	17 3	15 0	11 2
Fixed charge cover (covenant 2 5×)	**4 9**	3 6	4 5	–	–

Group balance sheet

	12 months to				
£m	**31 August 2012**	31 August 2011	31 August 2010	31 August 2009	31 August 2008
Non-current assets	**97.9**	62 6	39 0	40 6	34 7
Current assets	**170.0**	149 4	142 2	150 2	76 1
Current liabilities	**(266.4)**	(220 8)	(237 6)	(213 4)	(126 9)
Non-current liabilities	**(48 6)**	(46 5)	(4 1)	(41 2)	(51 5)
Long-term provisions	**(4 7)**	(4 9)	(1 9)	(4 6)	(0 7)
Net liabilities	**(51 8)**	(60 2)	(62 4)	(68 4)	(68 3)
Equity	**9.8**	9 7	9 6	9 1	9 1
Retained earnings	**222.5**	214 9	211 0	207 4	206 3
Other reserves	**(284.1)**	(284 8)	(283 0)	(284 9)	(283 7)
	(51 8)	(60 2)	(62 4)	(68 4)	(68 3)

Our Financials

Independent Auditor's 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 2012 which comprise the Parent Company Balance Sheet, the Parent Company Reconciliation of Movements in Shareholders' Funds and the related Notes 1 to 7 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 Chapter 3 of Part 16 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 auditor's 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 auditor

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 and express an opinion on 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 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 In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the parent company financial statements

- give a true and fair view of the state of the company's affairs as at 31 August 2012 and of its result for the year then ended,
- 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 2012

Alexander Butterworth ACA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Reading, United Kingdom
16 October 2012

Company Balance Sheet

As at 31 August 2012

£m	Note	2012	2011
Fixed Assets			
Investments in subsidiary undertakings	3	**520.0**	520 0
		520.0	520 0
Creditors· amounts falling due after more than one year	4	**(481.2)**	(466 4)
Total net assets		**38.8**	53 6
Capital and Reserves			
Called up share capital	5	**9.2**	9 2
Share premium account	5(c)	**0.6**	0 5
Retained earnings	6	**29.0**	43 9
Total shareholders' funds		**38.8**	53 6

These accounts were approved by the directors on 16 October 2012

Registered number — 05195191

Signed on behalf of the Board of Directors

Mark Cashmore
Group Chief Executive

Nick Gresham
Chief Financial Officer

Reconciliation of Movements in Shareholders' Funds

For the year ended 31 August 2012

£m	2012	2011
Opening shareholders' funds	**53 6**	67 3
Dividend paid	**(14 9)**	(13 8)
Shares issued in the year	**0 1**	0 1
Net reduction in shareholders' funds	**(14.8)**	(13 7)
Closing shareholders' funds	**38.8**	53 6

Our Financials

Notes to the Company Balance Sheet

1 Accounting policies

(a) Accounting convention

The accounts are prepared in compliance with the Companies Act 2006 and in accordance with applicable United Kingdom law and accounting standards The accounts 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 Company 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

2 Result for the year

The Company has not presented its own profit and loss account as permitted by section 408 of the Companies Act 2006 The result for the year attributable to shareholders, which is stated on an historical cost basis, was £nil (2011 £nil) There were no other recognised gains or losses Dividend paid in the year is £14 9m (2011 £13 8m)

3. Investments in subsidiary undertakings

£m	2012	2011
Net book value:		
At 1 September	**520 0**	520 0
At 31 August	**520 0**	520 0

An impairment of £142 9m has been recognised historically against the cost of these investments

4 Creditors amounts falling due after more than one year

£m	2012	2011
Amounts owed to Group companies	**481 2**	466 4

The amounts owed to Group companies is not considered to be repayable within 5 years These balance are not interest bearing

5. Called up share capital

£m	2012	2011
Authorised.		
300 0m Ordinary Shares of 5p each	**15 0**	15 0

£m	2012	2011
Issued and fully paid Ordinary Shares of 5p each		
At 1 September	**9 2**	9 2
Shares issued in the year	**–**	–
At 31 August	**9 2**	9 2

During the year 77,482 (2011 77,262) ordinary 5p shares were issued for a consideration of £65,306 (2011 £64,875), resulting in a share premium of £61,432 (2011 £61,012)

(b) Movement in share capital

Number (m)	Ordinary shares of 5p each
At 1 September 2011	183 4
Issued in the year	0 1
At 31 August 2012	**183.5**

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

(c) Share Premium

£m	2012	2011
Balance at 1 September	**0.5**	0 4
Issue in relation to Sharesave Scheme	**0.1**	0 1
Balance at 31 August	**0.6**	0 5

6. Reserves

£m	2012 Retained earnings
Balance at 1 September	**43.9**
Dividend paid	**(14.9)**
Balance at 31 August	**29.0**

7 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

Our Financials

Shareholder Information

Company Secretary and Registered Office
Stuart Marriner, Smiths News PLC, Wakefield House, Pipers Way, Swindon, Wiltshire, SN3 1RF

With effect from 29 October 2012, the Registered Office address will be Rowan House, Cherry Orchard North, Kembrey Park, Swindon, Wiltshire, SN2 8UH

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 Accounts
This Annual Report and Accounts 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 and Accounts have been notified of its availability on the website

A paper copy of the Annual Report and Accounts can be obtained by writing to the Company Secretary, Smiths News PLC, Rowan House, Cherry Orchard North, Kembrey Park, Swindon, Wiltshire, SN2 8UH or you can email your request to investor relations@smithsnews co uk

Annual General Meeting
The Annual General Meeting will be held at Rowan House, Cherry Orchard North, Kembrey Park, Swindon, Wiltshire, SN2 8UH on Thursday 24 January 2013 at 11 30 am 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
Shareholders unable to attend the Annual General Meeting should complete a Proxy Form To be effective, it must be completed and lodged with the Company's Registrars, Equiniti, by not later than 11 30 am on 22 January 2013

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 30 am on 22 January 2013

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* or from outside the UK +44 (0) 121 415 7565) 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)

** Calls to this number cost 8p per minute from a BT landline, other providers' costs may vary Lines are open 8 30 am to 5 30 pm, Monday to Friday*

Financial calendar

Financial year end	31 August 2012
Results announced	16 October 2012
Annual Report published	7 December 2012
Final dividend ex-dividend date	9 January 2013
Final dividend record date	11 January 2013
Interim Management Statement	15 January 2013
Annual General Meeting	24 January 2013
Final dividend payment date	8 February 2013
Half-year end	28 February 2013
Interim results announced	April 2013
Interim dividend ex-dividend date	June 2013
Interim dividend record date	June 2013
Interim dividend payment date	July 2013
Interim Management Statement	July 2013
Financial year end	31 August 2013
Results announced	October 2013

For the dates of events in the second half of the financial calendar, please check the Smiths News PLC website at www smithsnews co uk nearer the relevant time for further details, and to ensure that no changes have been made

The dividend dates shown above are in respect of the Company's ordinary shares of 5p

Share dealing service

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. For telephone dealing call 08456 037 037 between 8.30 am and 4.30 pm, 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.

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.

Share fraud – warning to shareholders

Share fraud includes scams where investors are called out of the blue and offered shares that often turn out to be worthless or non-existent, or an inflated price for shares they own. These calls come from fraudsters operating in 'boiler rooms' that are mostly based abroad.

While high profits are promised, those who buy or sell shares in this way usually lose their money.

The Financial Services Authority (FSA) has found most share fraud victims are experienced investors who lose an average of £20,000, with £200m lost in the UK each year.

Protect yourself

If you are offered unsolicited investment advice, discounted shares, a premium price for shares you own, or free company or research reports, you should take these steps before handing over any money:

- Get the name of the person and organisation contacting you.
- Check the FSA Register at www.fsa.gov.uk/fsaregister to ensure they are authorised.
- Use the details on the FSA Register to contact the firm.
- Call the FSA Consumer Helpline on 0845 606 1234 if there are no contact details on the Register or you are told they are out of date.
- Search the FSA's list of unauthorised firms and individuals to avoid doing business with, and
- *REMEMBER if it sounds too good to be true, it probably is!*

If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme if things go wrong.

Report a scam

If you are approached about a share scam you should tell the FSA using the share fraud reporting form at www.fsa.gov.uk/scams, where you can find out about the latest investment scams. You can also call the Consumer Helpline on 0845 606 1234.

Details of any share dealing facilities that the Company endorses will be included in Company mailings.

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 $2^{13}/_{81}$p (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 have to be apportioned between the shareholdings of ordinary shares of 5p in the Company and ordinary shares of $22^{6}/_{87}$p (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 $55^{5}/_{9}$p (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 have to be apportioned between the shareholdings of ordinary shares of $2^{13}/_{81}$p and 'C' shares resulting from the capital reorganisation.

The cost of your shareholding of ordinary shares of $2^{13}/_{81}$p is calculated by multiplying the original base cost of your ordinary shares of $55^{5}/_{9}$p (adjusted where necessary to take into account the capital reorganisation of 26 May 1998 referred to above) by 0.73979.

Our Financials

Shareholder Information continued

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 have to be apportioned between the shareholdings of ordinary shares of 55$^{5}/_{9}$p and redeemable 'B' shares resulting from the capital reorganisation

The cost of your shareholding of ordinary shares of 55$^{5}/_{9}$p is calculated by multiplying the original cost of your ordinary shares of 50p by 0 90714

March 1982 values

If your shares result from a holding of old WH Smith PLC shares acquired on or before 31 March 1982, the tax base cost to be used in order to calculate any chargeable gains or losses arising on the disposal of shares is the 31 March 1982 base values per share as follows

	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

If you have a complicated tax position, or are otherwise in doubt about your tax circumstances, or if you are subject to tax in a jurisdiction other than the United Kingdom, you should consult your professional adviser

Shareholder Notes

Our Financials

Shareholder Notes

Glossary of Terms

The Group
Smiths News PLC and its subsidiaries

Smiths News PLC/the Company
Smiths News PLC, registered in England and Wales with registered no 5195191

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

Bertrams
The business operated by the following subsidiaries of Smiths News PLC (i) Bertram Trading Limited comprising Bertram Books, Bertram Library Services and Bertram Publisher Services and (ii) Dawson Books Limited comprising Dawson Books and the ebook platform 'Dawson era'

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

Dawson Holdings
Dawson Holdings PLC, a company acquired by Smiths News PLC in August 2011 which comprises (i) Dawson Books, a leading supplier of academic books in the UK and internationally, (ii) Dawson Media Direct, an international media agency linking airlines and media publishers to ensure passengers are entertained and informed, and (iii) Marketlink Marketing Communications, a supply chain solutions provider for the distribution and/or fulfilment of printed materials and products

The Consortium
The business operated by a subsidiary of Smiths News PLC, The Consortium for Purchasing and Distribution Limited comprising The Consortium and West Mercia Supplies

Dawson Media Direct or DMD
The business operated by a subsidiary of Smiths News PLC, Dawson Media Direct Limited comprising Dawson Media Direct

Marketlink Marketing Communications or MMC
The business operated by a subsidiary of Smiths News PLC, Marketlink Marketing Communications Limited comprising Marketlink Marketing Communications

Smiths News PLC
Rowan House
Kembrey Park
Swindon
Wiltshire
SN2 8UH
United Kingdom
Telephone 0845 123 0000
Facsimile 01793 563601

www.smithsnews.co.uk