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Delivering promises realising potential

Smiths News PLC
Annual Report and Accounts
2013

Our business at a glance

Smiths News PLC is a leading specialist distributor listed on the London Stock Exchange with a market capitalisation of circa £350 million.

Our ambition is to be the leading supply chain trading and distribution specialist in our chosen market sectors, providing unmatched customer experience and expertise to consistently deliver strong returns to our shareholders.

Operating in large and specialist markets our unmatched customer service and investment in technology gives us the competitive advantage to consistently grow profits and deliver strong returns to shareholders

Our chosen markets are large, resilient and have significant barriers to entry In our largest market – newspapers and magazines – the business model is further underpinned by long-term contracts

We have diversified the Group into new products, sectors and geographies, and now operate in a variety of markets with long-term growth fundamentals, providing significant headroom to increase revenues and market share

Smiths News

Smiths News is the UK's largest newspaper and magazine wholesaler

A leader in time sensitive logistics, the business serves 30,000 customers from 45 distribution centres across the UK Smiths News' people, processes and technology make it the UK's number one wholesaler in the large and resilient newspaper market

To read the full performance review for Smiths News go to page 18

Bertrams

Bertrams is a leading distributor of printed and digital books to customers in the UK and worldwide

Bertrams supplies books to independent and high street bookstores, online retailers, public libraries, academic institutions and direct to consumer

Selling to 95 countries, the business has access to a range of 4 million printed books, with over 200,000 titles in stock and a database of 285,000 digital titles

To read the full performance review for Bertrams go to page 20

The Consortium

The Consortium is a leading distributor of consumable products to the education and care markets.

With over 30,000 customers, The Consortium is a major player in the large and structurally growing education and care markets

The business markets over 40,000 products using catalogues and targeted websites backed with outstanding customer service

To read the full performance review for The Consortium go to page 22

Media

Dawson Media Direct is the world's largest supplier of newspapers and magazines to airlines and an emerging player in inflight entertainment.

With seven international hubs and airside access in 50 countries, the business has a portfolio of blue chip airline and rail customers DMD is also an industry innovator in the market for inflight hardware encryption and digital entertainment solutions

To read the full performance review for Media go to page 24

Highlights for the year

Strong financial performance

Underlying profit before tax

£53.0M

Change

+11.6%

Free cash flow

£32.6M

Change

+19.8%

Growing shareholder returns

Underlying earnings per share

22.4P

Change

+12.6%

Dividend per share

9.3P

Change

+8.1%

Continued progress against our strategic objectives

- Smiths News has secured £800m (or 53%) of its annual revenues to 2019 and beyond
- Delivered £8 7m of £20m 3 year efficiency programme in Smiths News
- Launch of Wordery com our direct to consumer book proposition
- The Consortium performing above investment returns with 15% pro forma profit growth
- Implemented a Group operating and governance structure increasing management bandwidth
- 29% of profits from activities outside of newspaper and magazine wholesaling – on track for target of 50% by 2016

This year's Annual Report is different We describe the essence of how our business works by answering a series of straightforward questions

We then provide more detailed information to complete the picture. We hope you find this straight talking approach useful and informative

Contents

What is our strategy for growth?

The Group plans to make progress in each of its business units, increasing or maintaining market share and profitability

To support this strategy we will invest in new revenues, invest in our business and deliver further efficiencies to grow and sustain shareholder returns

What is our strategy for growth?

Chairman's statement

I am pleased to report that the Smiths News Group continued to deliver strong results Earnings are up for the fourth consecutive year, with profit increases achieved by all the divisions in the current financial year Our strategy of diversifying into carefully chosen markets has supported growth, facilitated new opportunity and positioned the Group to make further progress

The front section of this report includes details of our financial and strategic performance from which it is clear that the Group continues to make good progress towards its medium-term targets This year, 29% (FY2012 24%) of our profit will derive from activities outside of newspaper and magazine wholesaling and we continue to work towards our target of 50% by 2016

In what remains a challenging wider economy, it is ever more important to differentiate our offer The Group's key businesses are all leading businesses in their field and acknowledged experts with reputations for market leading service and cost-effective solutions Our approach has been to invest and build on these qualities, focusing on those markets and sub-sectors in which our specialist skills can add value for customers and suppliers

Smiths News remains the largest contributor to Group revenues and profit The renewal this year of a number of major contracts provides an enviable degree of stability This provides us with confidence that, by driving process efficiencies, we can broadly offset the long-term trend of declining sales In addition, we will explore opportunities for growth through additional services and incremental contract wins, leveraging our core capabilities and assets

The books market is increasingly complex and traditional distribution models are changing Under our ownership, Bertrams has become a multi-channel business, with strength in a range of specialist sectors and an increasing international reach The Group's acquisitions and investments have positioned Bertrams as a leading academic supplier across Europe The continued growth of our digital platform and the early success of our joint venture with Wordery demonstrates how a changing market can provide opportunity for those prepared to invest

We remain pleased with the performance of The Consortium since acquisition in April 2012 The Education and Care markets are forecast to continue growing in response to well documented demographic and policy trends The increasing independence of schools, particularly the increase in 'academy status' schools, and the renewed focus on value in the public sector will add momentum to the underlying opportunity for further growth

Turning to financial performance, underlying profit before tax is up 11 6% to £53 0m and underlying earnings per share increased 12 6% to 22 4p Free cash flow increased to £32 6m (FY2012 £27 2m) The Board is committed to maintaining strong returns to shareholders and, given our confidence in the future prospects for the Group, a final dividend of 6 3p per share has been proposed, making a full year dividend of 9 3p, up 8 1% on last year

I am conscious that this progress is ultimately due to the efforts and dedication of all of our colleagues throughout the Group It is their capacity to embrace change while delivering excellence every day that is the foundation of our success I would like to thank them for their dedication, and acknowledge the role of Mark Cashmore and his Executive Team in providing clear leadership across the Group

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 36, we have carefully reviewed the role and effectiveness of the Board and I am pleased to report that we believe that the Board continues to work diligently and effectively

In summary, the Group has delivered another strong performance, augmenting its track record of growth and strategic progress in a challenging environment I can confirm that the Board remains fully focused on the strategies that are outlined in this report and look forward to reporting on future success

Dennis Millard
Chairman

What is our strategy for growth?

Our strategy and key performance indicators

Our strategic aim is to deliver 50% of profits from activities outside of newspaper and magazine wholesaling by 2016.

The Group is planning to make progress in each of its business units, increasing or maintaining market share and profitability across all core markets In support of divisional strategic priorities, the Group's medium-term strategic aims are to

Deliver top line growth increasing our market share, winning new contracts and developing new products and services for our customer base

Definition
Total Group revenue

Target
To grow revenue on an average 5 year compound rate

Description
We aim to combine organic growth and acquisitions to offset the expected reduction in newspapers and magazines

Develop digital and online propositions that will complement the greater share of our business which we anticipate remaining in print and physical products

Make 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 continuous improvement in operational standards

Definition
Underlying basic EPS

Target
To grow EPS in line with underlying profit growth

Description
We aim to return value to shareholders by growing EPS in line with underlying profit growth Underlying basic EPS is used as a metric to calculate executive incentivisation See page 62

Invest in new processes and information systems to further improve the standard of operational delivery and customer experience across all business units

Invest in people by making further investments in the training and development of staff at all levels

Achieving our strategic aims will deliver growing and sustainable shareholder returns.

Definition
Underlying profit before tax

Target
To grow underlying profitability each year

Description
We aim to grow profitability by combining top line revenue growth, delivering efficiencies and acquisitions

The Group annual bonus scheme is linked to underlying PBT See page 62

Definition
Free cash flow

Target
To grow free cash flow each year

Description
We aim to continue investing in our businesses to achieve profit growth whilst being able to generate increasing free cash flow

Description
All businesses within the Group make concerted efforts to maximise recycling opportunities We work closely with waste and recycling companies to ensure we are doing all we can to reduce waste and recycle materials wherever possible Over 99% of unsold newspapers and magazines are recycled Recycling performance tables are circulated monthly and all locations are encouraged to further improve if possible

Definition
Percentage of Group underlying operating profit generated outside of newspaper and magazine wholesaling

Target
To deliver 50% of profits outside newspaper and magazine wholesaling by 2016

Description
We aim to diversify our business into structurally growing markets to deliver growth in revenue profits and returns to shareholders

Description
Delivering products on time is a crucial part of service to our customers On time delivery is measured daily and reported back to management teams internally and to our publisher, retailer and other partner clients

Definition
Net debt/EBITDA ratio

Target
To reduce leverage each year towards 1 0x target prior to any new acquisitions

Description
We aim to continue investing in our businesses to achieve profit growth and return cash to shareholders, whilst reducing our leverage ratio

Description
Our Team Talk staff survey is currently run every year for staff to have their say and to give us their feedback The results are owned by the Group Executive and communicated to staff In 2013 the Group ran its first ever survey that included all staff from all divisions – the independent engagement specialists Best Companies ('BC') conducted the survey on our behalf In 2013 The Consortium, who already work with BC, recorded their best results to date achieving 'One to Watch' accreditation

What is our strategy for growth?

Principal risks

The Group has a comprehensive risk management framework which has been further strengthened during the year with a consistent approach now embedded across the Group.

Risks

Structural market changes are deeper/quicker than predicted, including print migration to digital.

Failure to identify new organic opportunities or new acquisitions required to meet growth targets.

Continued economic recession causes reduction in household expenditure and/or Government spending.

Major supplier or customer loss or consolidation changes the wholesale relationship

Competitive environment becomes more challenging.

Failure to prevent cyber attacks that cause disruption or loss of systems and/or commercially/employee sensitive data.

Failure to deliver business plans and financial returns on recent acquisitions.

Legislature changes or interpretation impacting the engagement of delivery contractors resulting in an increase in the number of employees.

Failure to prevent breach of airside security that cause disruption or loss.

Financial risk and exposure through fraud, poor management controls and/or fluctuating key financial assumptions.

The Group has a comprehensive risk management framework which has been further strengthened during the year with a consistent approach now embedded across the Group The Board is responsible for the Group's strategy and system of controls and risk management The Audit Committee annually reviews the effectiveness of the Group's internal controls and risk management system along with an annual review of the Board's risk appetite Risks identified across the risk universe are consolidated, refined and calibrated to each area of the business with support from Internal Audit Key risks are plotted on risk maps with description and owners recorded in the risk register The Group Executive team review and monitor the Group's summarised risk map and register before final presentation to the Audit Committee The Group's major risks are detailed below

Potential impact	**Mitigating actions and assurance**
Sales declines in newspaper and magazines are worse than expected -3%-5% range and/or Books growth impacted resulting in lower profit and negative market sentiment related to printed media	A consistent pattern and clear view of market volumes ensures more accurate forecasting and combines with an expectation of continued declines for newspapers and magazines Management continue to identify efficiencies to compensate for market declines The Group's diversification strategy seeks to protect it from over exposure to individual market risks
Sales and profits expected from growth initiatives may not be met and/or contribution on growth initiatives impacts performance of base businesses	A strong pipeline of growth and investment opportunities are reviewed by individual business teams, Group Executive and/or PLC Board depending on their size and potential impact on the Group Financial and operational metrics are considered along with risk assessments and impact on management before decisions are made
Reductions in discretionary spending may impact sales of newspapers, magazines and books with reductions in Government spending potentially reducing consumables budgets in schools	Annual budgets and quarterly forecasts set realistic expectations internally and externally allowing for or changing objectives to meet short and medium-term financial targets Management has a track record of delivering revenues and efficiencies to compensate for market impacts
Impact on supply of product or route to market may erode margin and/or increase cost to serve	In Smiths News, 5 year contracts with publishers support the market structure Bertrams and The Consortium both operate in very fragmented markets with fewer significant suppliers or customers Strong relationships across the supply chain help the Group to understand and demonstrate its strengths for the benefit of its suppliers and customers
Sales growth opportunities are reduced and/or margin is eroded from price discounting required to hold market share	Market scale and expertise provides the ability to offer value and service to customers Bertrams and The Consortium monitor and track propositions to ensure competitive positioning
Customer service and/or satisfaction could be adversely impacted leading to compensation, increased costs for rectification and/or increased future investment requirements	External specialist advice supports a new internal position with the responsibility to review the Groups exposure, measure effectiveness of existing controls and recommend new controls if required
Sales and profits expected from acquisitions may not be met and/or reputation of the business and support for future acquisitions are questioned	Financial and operational metrics are considered along with risk assessments and impact on management before decisions are made Performance to plans are reviewed monthly with post investment analysis producing a more thorough review of each acquisition within 12 months after completion
Increased number of employees increase the cost base and potentially create greater redundancy costs from future efficiency programmes	Contractors have clearly articulated agreements defining tasks they are contracted to provide to Smiths News Regular checks are carried out by the internal audit team across the Smiths News network to ensure understanding and compliance
Costs could increase through additional security requirements and/or penalties with severe reputational damage potentially causing the loss of contracts for our media business	External security advice supports internal staff to review DMD's exposure, measure effectiveness of controls and recommend new controls if required In addition, insurance is taken out to cover the Group from major risks
Direct loss through fraud, or poor controls around debtors and stock could result in reduced profits Key financial assumptions budgeted for pension, interest and tax could move adversely reducing expected profits	Strong operational processes are supported by a Group accounting policies manual to ensure appropriate financial controls are consistently applied In addition, insurance is taken out to cover the Group from major risks Annual budgets and quarterly forecasts set realistic expectations internally and externally allowing for or changing objectives to meet short and medium-term financial targets

How have we performed?

We continue to make good progress against our medium-term strategic objectives. Group performance benefited from both organic growth and the full year impact of acquisitions. We have grown Group revenue 0.4% and increased profit by 11.6%.

How have we performed?

Group Chief Executive's review

'We have delivered another strong financial performance with underlying PBT up 11.6% to £53.0m and EPS up 12.6% to 22.4p.'

It is pleasing to report another year of progress for the Group Underlying profit before tax is up 11 6% with profit growth reflecting the strong market positions of all of our businesses in what remains a challenging economic environment

This was our fourth consecutive year of earnings growth and we remain on track with our strategy to develop the Group as a leading specialist distributor across a range of market sectors Free cash flow of £32 6m has grown by 19 8% supporting an 8 1% increase in the full year dividend to 9 3p (FY2012 8 6p)

Overview
The Group as a whole has performed well, with financial and strategic progress across all divisions We remain on track with our stated strategy of achieving 50% of profit from activities outside of newspaper and magazine wholesaling by 2016

Smiths News increased operating profit by 2 5% to £40 0m. In what are challenging and mature markets, this is a particularly pleasing performance Our track record of delivering sustainable operating efficiencies continues, with £8 7m annualised savings achieved through a combination of network restructuring and continual re-engineering of operating processes We have now contracted 53% of revenues through to at least 2019, giving a high degree of certainty that will support and sustain future profits

Bertrams increased operating profit by 6.1% to £7.2m. Highlights of the year include the acquisition of Erasmus, a specialist distributor based in The Netherlands, the acquisition of a range of academic supply contracts from Blackwell's, and the launch of Wordery, an online book offer to consumers The Group's continued investments has ensured Bertrams now supplies a diverse range of sectors including UK trade, public and academic libraries, international markets, digital content to academic customers and trading direct to consumers It is this range of channels which gives the division both resilience and future opportunity

The Consortium increased pro forma operating profit by 15 3% to £7 4m
In our first full year of ownership The Consortium has demonstrated its excellent fit and contribution to the Group The Education and Care markets have strong underlying growth fundamentals and with the Group's support The Consortium is well placed to increase profitability and market share This year's strategic priority has been the integration of West Mercia Supplies (acquired by The Consortium in April 2012) into one organisation, with consequent improvements in customer service and underlying efficiency In addition we have invested in renewing websites, customer relationship software that will target and drive sales effort, and increased telesales resource

In October 2013, Glenn Leech took over from Melanie Teal as managing director We now have a new and ambitious senior team at The Consortium, fully focused on growing the business and meeting our strategic targets

Media increased operating profit by 11 1% to £2 0m. The division continues to pursue a strategy of winning print media contracts, improving operating efficiency and widening its provision of digital content In April 2013, the Group sold the small marketing and fulfilment company, Marketlink Marketing Communications Limited ('MMC'), concluding that its activities were not core to our strategy

How have we performed? Group Chief Executive's review continued

Progress against our strategic goals

In last year's Annual Report we set out six strategic goals. We have made good progress in all areas.

Strategic Priorities	2013 Progress
Deliver top line growth by increasing our market share, winning new contracts and developing products and services for our customer base	– The Group's top-line revenue has increased by 0 4% – Each of the Group's divisions has made progress in winning contracts, and developing new products and services **To read a case study illustrating our progress go to page 25**
Develop digital and online propositions that will complement the greater share of our business which we anticipate remaining in print and physical products	– Digital revenues in Bertrams are up by 38% and the Group has announced an intended £5m investment in the DawsonEra portal Wordery was launched in October 2012 and Wordery com in September 2013 – The Group has commissioned a major refresh of The Consortium's websites, ensuring it has the best online proposition in its marketplaces – The digital proposition of DMD is gaining traction with new contracts taking the total number of serviced iPads to over 8,000 **To read a case study illustrating our progress go to page 21**
Identify and secure further acquisitions that will complement our existing businesses and give access to new specialist distribution markets	– The Group has made two acquisitions during the year Erasmus, a specialist book distributor based in The Netherlands which strengthens Bertrams' international reach, and a range of academic contracts from Blackwell's that complement our academic customer base in the UK and abroad
Deliver further efficiencies across the Group, continuing our programme of cost control, service re-engineering and continual improvement in operational standards	– We remain focused on cost control and efficiency at all levels – this is a core operating strength and hallmark of the Group – Smiths News delivered £8 7m of sustainable cost savings in the year – The Consortium achieved further efficiencies from the integration of West Mercia Supplies – Bertrams secured efficiencies in its book processing at our Norwich hub The Group recently confirmed an investment in pack-line technology that will realise further efficiencies at the Norwich distribution hub – DMD now outsources the physical distribution of all its UK newspapers and magazines to Smiths News, this year it centralised much of the international administration, resulting in lower overheads and improved performance
Invest in new processes and information systems to further improve the standard of operational delivery and customer experience across all business units	– The Group continues to invest in processes and information systems to ensure it offers outstanding customer experience, combined with the best value in its markets – In 2013, an upgrade of our SAP enterprise system was completed on time and to budget Further investments have been made across the Group in websites, customer management systems, telesales, and operational technology **To read a case study illustrating our progress go to page 19**
Maintain competitive advantage through our people by making further investments in training and development of staff at all levels	– Our commitment to people is spearheaded by a Talent Strategy which offers opportunity at all levels Highlights this year include the launch of an online learning portal and the expansion of our leadership development programme to ensure we are maximising the potential of our staff – Our newly acquired businesses have been integrated into the Group's people processes and we have seen a greater than ever movement of staff between the divisions, sharing knowledge and expertise **To read a case study illustrating our progress go to page 23**

Objectives for 2013/14

2013 Group revenues

£1.8BN +0.4%

Deliver top line growth
- Continuing to grow our existing businesses profitability by winning new profitable customers, and supplying additional products and services
- Supplementing organic growth with carefully targeted acquisitions – as and when timing is right for the Group

3 year investment in the DawsonEra platform

£5.0M

Develop digital and online propositions
- Investing £5m over the next three years in the digital proposition to academic customers, to enhance and maintain the DawsonEra platform
- Growing Wordery sales and market share, including launch of Wordery com
- Further developing the websites and online ordering capability of the Consortium
- Maximise productivity from new 'pick and pack' technology to support internet fulfilment at Bertrams

2013 pro forma acquired revenues

£23.0M

Identify and secure further acquisitions
- Secure further acquisitions that complement our existing businesses adding scale and capability
- Ensure the rapid integration of new businesses, exploiting synergies and maximising value

Smiths News cost savings

£8.7M

On track for 3 year target

Deliver further efficiencies across the Group
- Optimise the cost base of all divisions through further operational efficiencies
- Rapidly secure synergy and efficiency gains from new acquisitions
- Maintain 'on track' progress to £20m cost savings in Smiths News by 2015

Investment

£40.0M

Investment in one of the UK's largest SAP transactional databases since implementation in 1999

Invest in new processes and information systems
- Further strengthen our customer propositions through service innovation and continuing investment in new processes and information systems for all key markets
- Continued investment in our distribution network and in operational technology

Staff

4,560

Launch of online learning portal available to all staff

Maintain competitive advantage through our people
- Maintain our investment in our staff, supporting an outward-looking growth-led culture
- Further develop our talent strategy and related initiatives to ensure we attract and retain high quality individuals in key leadership roles

How have we performed? Group Chief Executive's review continued

Strategy
Our Group strategy is clear – we aim to be a leading specialist distributor in each of our chosen markets To achieve this, we will deliver outstanding customer service, backed by unmatched efficiency and industry leading systems It is this combination of service, expertise and ongoing investment that makes us the partner of choice in each of our supply chains, adding value to both suppliers and customers

The Group's foundations and heritage lie in the newspaper and magazine industry, and it is no coincidence that we are the largest and most successful news wholesaler in the UK, with a world class operation and reputation for excellence We remain fully committed to this sector and believe current profit can be broadly maintained through continued efficiencies and the development of complementary revenue streams

Recent diversification into the Books, Education and Care markets has strengthened the Group, giving more balance to our revenues and lessening dependency on a single sector We are targeting 50% of profit to come from activities outside of newspaper and magazine wholesaling by 2016 This will be achieved by a combination of organic sales growth and further acquisitions that build our scale, efficiency and customer base

The Group has a vital role to play in providing the environment, investment and resources to ensure all of our divisions prosper Many of our skills, competencies and systems are transferable across the Group's divisions, allowing us to share best practice and leverage our people and technology We are passionate about continual improvement and building strong relationships that cement our role as the essential partner in our supply chains

Strategic goals
The Group is confident of further progress, growing profits, increasing cash flow and delivering on our strategic objectives

A detailed review of the progress and future plans for each of the divisions is set out on pages 18 to 25 of this report

Corporate responsibility
As a PLC we recognise our responsibility to the environment, industry best practice, customers, staff and the wider communities we serve The Group has a programme of initiatives which build on a solid foundation of responsible best practice across the workplace and in our markets

I am especially pleased to see further progress on our carbon reduction initiatives and the widening of our community programme to include partnerships with two literacy focused charities

Details of our corporate responsibility programme and its progress this year are set out in pages 26 to 31 of this report

Outlook
The Group has started the new financial year positively and in line with our expectations

Our medium-term outlook remains strong and we are focused on growing profits, generating significant levels of free cash and maintaining a progressive dividend policy We remain committed to our previously stated aim of 50% of Group profits generated from outside of newspaper and magazine wholesaling by 2016

Mark Cashmore
Group Chief Executive

'We remain focused on achieving 50% of profits from activities outside of newspaper and magazine wholesaling by 2016, and believe our ability to generate significant free cash will support a progressive dividend policy.'

Financial review

'The Group has delivered another period of strong financial performance and achieved further strengthening of its financial position. The key measures and judgements in the accounts have been tabled below with clear referencing of where to find more detail within the annual report.'

Financial measure	FY2013 result and narrative	Further reference	Guidance FY2014
Underlying Results	– Organic growth and the impact of acquisitions result in an underlying operating profit of £56 5m up 10 4% (FY2012 £51 2m) with all four divisions reporting profit growth in the year – Underlying profit before tax of £53 0m is up 11 6% (FY2012 £47 5m) – Basic earnings per share of 22 4p is up 12 6% (FY2012 19 9p) – Fully diluted earnings per share of 21 1p is up 9 3% (FY2012 19 3p)	Note 2, page 72 Note 10, page 80	The Group has started FY2014 trading in line with forecasts and remains on track to grow profits in the current year in line with those forecasts
Finance Cost	– Net underlying finance costs were £3 5m (FY2012 £3 7m) Net bank interest and related charges were £5 3m (FY2012 £4 9m) In addition, Finance costs include pension interest credit and the favourable impact of fair value movements in interest rate hedges of £1 8m (FY2012 £1 2m)	Note 7, page 78	Following adoption of IAS 19 (Revised) in FY2014, the estimated non-cash position for FY2014 will be a charge of approximately £1 0m
Non-Recurring and Other Items	– Non-recurring and other items totalled £11 1m before tax and £9 8m after tax (FY2012 £8 6m) – Integration costs were £1 1m, network reorganisation costs £3 3m, acquisition costs £3 7m, amortisation of acquired intangibles £2 8m and other costs of £0 2m	Note 4, page 74	Similar levels of network reorganisation and amortisation costs are expected to be incurred in FY2014
Statutory Results	– Statutory profit before tax of £41 9m is up 14 5% (FY2012 £36 6m) – Basic earnings per share of 17 1p is up 12 5% (FY2012 15 2p) – Fully diluted earnings per share of 16 0p is up 8 8% (FY2012 14 7p)	Note 2, page 72 Note 10, page 80	The Group expects statutory results to follow underlying results
Taxation	– The underlying tax charge was £12 1m (FY2012 £11 4m), the effective underlying tax rate was 22 8% (FY2012 24 0%) – The statutory tax charge was £10 8m (FY2012 £9 1m), the effective statutory tax rate was 25 8% (FY2012 24 9%) with a lower tax credit on non-recurring and other items in FY2013 versus FY2012	Note 8, page 79	The Group expects its tax charges to follow standard UK corporation tax rates

How have we performed?

Financial review continued

Financial measure	FY2013 result and narrative	Further reference	Guidance FY2014
Dividend per share	- The interim dividend per share of 3 0p up 7 1% (FY2012 2 8p) was paid on 12 July 2013 - The proposed final dividend of 6 3p up 8 6% (FY2012 5 8p) will be payable to shareholders on the register at 10 January 2014 on 7 February 2014 - The total proposed dividend for FY2013 of 9 3p is up 8 1% (FY2012 8 6p)	Note 9, page 79	The Group has a progressive dividend policy, expecting to grow future dividends as the Group achieves future profit growth
Cash and debt	- The Group continues to deliver strong free cash flows delivering £32 6m (FY2012 £27 2m), up 19 8% This included a working capital outflow of £5 0m, capital expenditure £7 9m, net interest paid £4 2m, taxation £10 5m, pension funding £6 5m and other cash inflows of £2 6m - As at 31 August 2013 net debt was £98 5m (FY2012 £100 5m) Net debt is a combination of £108 6m of gross debt and £10 1m of cash held in local entities held to finance local operations - The Group borrowings are cyclical during the financial year resulting in average borrowings c£10m higher than the closing position and maximum borrowings of £40m above the closing position This resulted in an average headroom of £67m throughout the year	Note 27, page 93 Group cash flow statement, page 65	The Group expects to continue delivering strong free cash flows for FY2014, not less than FY2013 The Group expects to continue to pay down borrowings from net cash by approximately £5m in FY2014, before any new acquisitions
Covenants	- The Group remains comfortably within each of its banking covenants - Net debt/EBITDA was 1 5x (FY2012 1 6x) versus a covenant limit of 2 5x - Interest charge cover was 13 9x (FY2012 12 7x) versus a covenant minimum of 3 0x - Fixed charge cover was 5 3x (FY2012 4 8x) versus a covenant minimum of 2 0x		The Group expects to remain comfortably within covenant limits with net debt/EBITDA continuing to decrease before any new acquisitions, as a result of increased profits and decreased debt
Bank Facilities and Treasury	- The Group had £177m of committed bank facilities in place as at 31 August 2013 (FY2012 £180m) - Committed facilities reduced to £174m as scheduled in September 2013 Further scheduled facility repayments of £4m are due in September 2014 - £10m of RCF facility matures in August 2014 with the remainder of the committed facilities maturing in November 2014 - Interest rate hedges, used to manage exposure to interest rate fluctuations, covered 100% of the Group's core borrowings as at 31 August 2013	Note 20, page 87	The Group has commenced a refinancing project ahead of the main maturity date of November 2014 The Group expects to complete a refinancing for not less than £180m by the end of February 2014 with similar covenants

Financial measure	FY2013 result and narrative	Further reference	Guidance FY2014
Pensions	- The Group operates 3 defined benefit schemes, closed to new entrants and future accrual - The Smiths News section of the WH Smith pension trust has assets of £455 3m and a deficit of £23 0m as at June 2013 (March 2009 £50 0m) with a deficit repair agreed at £4 1m p a until March 2019 (March 2009 £5 8m p a for 10 years) As at 31 August 2013 the IAS 19 surplus was £53 2m (FY2012 £40 3m) not recognised in the accounts as the amount available on a reduction of future contributions is £nil - The Group has amended its accounting to recognise the present value of the agreed schedule of future contributions as a pension liability of £20 3m (FY2012 previously reported £nil FY2012 restated £33 5m) - The Consortium defined benefit schemes have £14 3m of assets and an actuarial deficit of £1 4m as at December 2010 As at 31 August 2013 the IAS 19 deficit was £2 8m - The total cash contribution of DB schemes and expenses in the cash flow statement for FY2013 was £6 5m (FY2012 £6 8m)	Note 6, page 76	Total cash contribution for DB schemes and expenses in the cash flow statement for FY2014 is expected to be £1 7m lower than in FY2013 as a result of the reduced Smiths News contribution agreement IAS 19 (Revised) requires a change in accounting policy, the estimated non-cash position for FY2014 being a charge of approximately £1 0m in finance costs
Balance Sheet	- As at 31 August 2013 total equity deficit was £56 9m, (FY2012 restated £77 6m) - During the year the Group completed a capital reduction exercise in Smiths News Holdings Ltd, creating additional distributable reserves As at 31 August 2013 distributable reserves were £73 0m (FY2012 £29 0m) - There have been no material events after the balance sheet date	Group balance sheet, page 63 Company balance sheet, page 103	The Group expects to continue to generate profits and retained earnings further reducing the equity deficit position in FY2014
Shares	- As at 31 August 2013 the basic number of shares issued was 182 2m (FY2012 181 3m) - As at 31 August 2013 the fully diluted number of shares was 193 9m (FY2012 187 1m) - Fully diluted shares include 7 2m for employee incentive schemes (FY2012 4 3m) and 4 5m shares (FY2012 1 5m) being the weighted impact of 4 5m deferred shares in relation to The Consortium deferred consideration	Note 10, page 80	Deferred consideration shares (4 5m) are expected to be fully issued by January 2014

How have we performed?

Financial review continued

Financial measure	FY2013 result and narrative	Further reference	Guidance FY2014
Acquisitions and divestments	– During the year, the Group acquired Erasmus contributing £7 4m to revenue and £0 3m to underlying operating profit In addition the Group acquired academic library customer relationships contributing £0 8m to revenue – On a full year proforma basis total acquired revenues are £23 0m and acquired total operating profits are £0 6m – During the year we disposed of MMC which reported £3 9m of revenue and £0 1m of profit in 2013 – Total cash outflow in respect of acquisitions was £5 1m	Note 12, page 82 Note 13, page 83	Bank facilities and covenants provide sufficient financial headroom for the Group to support growth through further acquisitions financed through debt with further capacity available through the raising of equity if efficient to do so
Critical Accounting Policies	– The directors believe that the accounting policies 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 – Retirement benefit obligations – Impairment of goodwill – Valuation of acquired intangibles – Returns reserve – Onerous property contracts – Taxation judgements	Note 1, page 66	
Going Concern	– The Group meets its day-to-day working capital requirements through its bank facilities of up to £174m The Groups forecasts, taking into account the Boards 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	Note 20, page 87	

Nick Gresham
Chief Financial Officer

How have the divisions performed?

The Group has a balanced portfolio of 4 divisions each of which have separate growth plans and each has grown profits this year.

How have the divisions performed?

Smiths News

- A market leader in large and resilient markets
- Significant revenue visibility. £800m of annualised revenues secured to 2019
- £45m of pro forma incremental revenues in FY2013
- £8.7m efficiencies achieved
- Underlying profit up 2.5% to £40m

Figures

Divisional revenue	Operating profit
£1,529.3M	£40.0M

Markets

The business distributes newspapers and magazines on behalf of all the major national publishers as well as a large number of regional publishers. It supplies 30,000 customers including large multiple retailers and independent newsagents anywhere in England and Wales within 90 minutes from its 45 distribution centres

- Magazine hub
- NDC spokes
- Geographical coverage

Key facts

Customers

30,000

Distribution centres	Employees
45	3,350

	2012	2013
On time delivery	97 20%	**96.40%**
Newspaper pack accuracy	97 20%	**99.80%**
Newspaper returns collection	99 00%	**98.50%**
Magazine pack accuracy	99 70%	**99.60%**
Magazine returns processing accuracy	100 00%	**100.00%**

Overview
Smiths News continues to deliver a market leading performance with a combination of profit growth, sustainable efficiencies and contract wins that will help underpin profitability into the future

Underlying operating profit of £40 0m is up 2 5% on the previous year (FY2012 £39 0m) New revenues from incremental contract wins have boosted total sales

Markets
The newspaper and magazine market is large and mature Sales have been in gradual decline for many years with price increases and new launches helping to offset volume reductions in established titles These trends continued in FY2013 with newspaper sales performing more strongly than magazines helped by price increases Magazines continue to be more challenging, negatively impacted by title closures and price discounting, particularly in the TV listings sector

Taking the market as a whole, the underlying sales of core newspapers and magazines were down 4 6%, within the range of our medium-term strategic forecast which anticipates a decline of 3% to 5% per annum Importantly, Smiths News outperformed the like-for-like market trends with overall sales down by 2 6% due to revenues from national and regional contract gains

Strategy
Smiths News' strategy is well understood and supported by our key partners across the supply chain

Our aim is to secure long-term contracts by offering an unmatched combination of service and efficiency The relative predictability of revenues from these contracts allows us to plan investments and seek sustainable operating efficiencies, helping to offset the gradual sales decline and broadly maintain core profit in what is recognised to be a mature market sector In addition, we will explore opportunities to leverage our network and commercial relationships to diversify into new products and services

Progress
Further contract renewals we concluded during the year with major publishers mean that £800m of annualised revenues have been secured until at least 2019 This equates to 53% of our current annualised sales

Sustainable efficiencies amounting to £8 7m p a were achieved from a variety of initiatives to reduce costs across the network The business remains on track to achieve savings of £20m in the current 3-year efficiency programme by 2015

Consolidating the network into fewer but larger depots is an ongoing process and a highlight this year included the creation of a West-Midlands super-hub at Birmingham which now serves over 4,000 customers The progress with securing contracts gives us greater line of sight of our future requirements as we continually assess opportunities in response to the market changes

The SAP enterprise system, which underpins both our operation and support services, was upgraded in 2013 The upgrade was delivered on time and without interruption to service and will help to maintain our position as the market leading provider for both publishers and retailers

Independently conducted surveys continue to rank Smiths News as the clear market leader for service Providing a high-quality service is core to our strategy it builds trust with commercial partners, whilst reducing costs by minimising waste and rectification costs

Our investigations into the potential for additional products and services have seen a range of trials this year It is early days but we will continue to explore opportunities to complement the core offer

Future plans
Looking ahead, we recognise the challenges of operating in a mature market and continue to plan on the basis of a gradual reduction in core sales We believe the market will remain large and relatively stable into the foreseeable future, with opportunity to win incremental business as the remaining national and regional contracts arise

Our core strategy remains unchanged – to efficiently serve our existing contracts and secure further contracts through a combination of leading service, unmatched efficiency and continual improvement in productivity We will invest in the network and systems to deliver further savings and plan to continue our investigations into new products and services that will help diversify our revenues

Our strategy in action

Moving with the times

When Smiths News needed to upgrade its SAP Enterprise Resource Planning (ERP) software, Head of Business Systems Andrew Caple knew it would be a long and complex project

'SAP ERP software underpins every area of our business,' he said, 'making it absolutely critical to the smooth-running of Smiths News With this in mind, we needed to manage the transition of 1,395 users to a new platform as seamlessly as possible '

This was successfully achieved, ahead of deadline and on budget The result is an ERP package that is better suited to Smiths News' current and future business operations, and will be supported by SAP until at least 2020

'The SAP upgrade is in line with our business strategy' Caple asserted 'By putting it in place, we are prepared for the future '

How have the divisions performed?

Bertrams

- Outperformed UK consumer market
- Launch of Wordery in October 2012
- Strong International growth +30% year-on-year including acquisitions
- Acquisition of Erasmus and other academic contracts
- Digital sales grew by 38%
- Underlying operating profit up 6 1%

Figures

Divisional revenue

£187.9M

Operating profit

£7.2M

Markets

Bertrams now has a diverse business and its broad sales mix is an ongoing strength It now supplies the public and private sectors, high street and internet fulfilment, UK and international, print and digital and direct to consumer in 95 countries

Key facts

Customers

8,200

Selling to countries

95

Employees

700

	2012	2013
Availability of core titles in range	96 00%	**96.00%**
On-shelf stock integrity	99 60%	**99.40%**
Same day despatch	100 00%	**100.00%**
Delivered next day	96 30%	**98.00%**

Overview
Bertrams has performed well in a market that continues to feel the effects of the wider economy as evidenced by the UK trade retail market and is further impacted by changes in technology and consumer buying habits Nevertheless, sales of the division rose by 7 8% and underlying operating profit was up 6 1% to £7 2m (FY2012 £6 8m), with strong performance from international sales, direct to consumer sales and our digital service to academic customers

Bertrams is now a multi-channel, international distributor with a portfolio of interests which include sales to UK trade retailers, international markets and academic and public libraries The business also provides internet fulfilment services, has a leading digital portal for universities and colleges, and recently launched a 'direct to consumer' online offer This year's progress demonstrates our strength in the growing and emerging sectors of the books market, helping to balance the gradual decline in some more traditional channels such as the high street retail sector

Markets
The consumer books market is in a period of transition, affected by the emergence of ebooks and a shift from the high street to internet retailers Bertrams continues to respond to these developments, outperforming industry trends with an increase in UK wholesale sales of 2 2% compared to decline in the total UK books consumer market of 6 0% This, the fourth consecutive year of progress, reflects our strength in growing sectors, such as serving internet retailers and the launch of Wordery, a 51% owned subsidiary which sells books online directly to consumers

The opportunity for Bertrams to grow in international markets continues and performance has been assisted by acquisitions that support our academic offers and customer base International sales are up by 30 2% and now represent 26 2% of total sales

UK public and academic libraries have been more challenging with pressure on funding DawsonEra, our digital books portal for university and college libraries, continues to make excellent progress with further sales growth this year of 38 0%

Trading
Overall, sales are up 7 8%, with performance varying considerably by sector and reflecting the differing dynamics of each marketplace

UK wholesale continues to experience a shift from high street to internet retailers Bertrams has responded with a sophisticated fulfilment offer which supports leading internet customers, including Amazon, Tesco, WH Smith, Sainsbury's, Waterstones and, more recently, Wordery

Operationally, in response to growing demand for fulfilment services, we have recently installed new pack-line technology that will materially increase our productivity and speed of dispatch for online sales and bespoke orders

Almost one third of Bertrams' sales are now made to academic customers in the UK and internationally A major contract renewal this year was the joint national tender to the Consortium of UK Universities, whilst international sales benefited from the acquisition of Erasmus and a range of customer contracts from Blackwell's Our digital portal for universities, DawsonEra, complements our supply of printed books and gives competitive advantage by providing a 'one-stop-shop' solution for customers

The launch of Wordery is a milestone in our multi-channel strategy Wordery is a joint venture selling direct to consumers and using our Norwich distribution hub to support an online proposal that combines great customer experience with competitive pricing Launched in October 2012, Wordery quickly became established as a leading marketplace trader, and in September 2013, Wordery com was launched We are excited by the prospects for Wordery and will be investing to support further growth

Future plans
We aim to make Bertrams a world class book distributor, with a range of services that are unmatched by our direct competitors The books market is large and variable in its make-up we will focus investment on those sectors and opportunities in which we can grow profit, pursuing a balanced portfolio of sales across a range of market segments

Digital books have been disruptive to traditional high street sales, but they offer opportunity as well as challenge, and we have ambitious plans for our DawsonEra system We will invest to enhance its range, functionality and foreign language capability, aiming to be the market leading eBooks platform for universities and institutions across Europe

Our strategy in action

Wordery's satisfied customers

Since launching in October 2012, Wordery has established itself as one of the UK's most popular booksellers

The Company is a joint venture between Bertrams and Wordery's founders, led by managing director Will Jones It combines the distribution expertise of Bertrams with the retail savvy of Wordery's team, and the result is proving very popular with book lovers

Until recently, Wordery has operated as a marketplace seller on sites like eBay and Amazon Its customer feedback is consistently excellent, and it was listed as a top-rated seller on eBay within months of opening

As the second phase of its launch, Wordery is launching a direct-to-consumer website that it hopes will capitalise on its popularity with customers Wordery com went live in September 2013, and will provide a further platform for the Company's sales operation

How have the divisions performed?

The Consortium

- Underlying pro forma operating profit up 15 3%.
- Smooth integration into the Group
- West Mercia Supplies integration progressing well
- Investing to support sales growth
- New leadership team

Figures

Divisional revenue

£63.8M

Operating profit

£7.4M

Markets

The markets are large and growing with compelling fundamentals with population growth driving growing numbers of school places, nurseries and care homes The Consortium has a 5% market share in the £1bn education market with opportunity to grow through share of wallet and increased geographical reach The market is also highly fragmented, one fifth of which is supplied by the public sector and over 250 private sector businesses

Key facts

Customers

30,000

Distribution centres

2

Employees

410

	2012	**2013**
On time delivery	98 20%	**98.40%**
Stock availability	9710%	**94.06%**
Customer Service calls answered first time	9810%	**98.50%**

Overview
In our first full year of ownership, The Consortium has been fully integrated into the Group and is benefiting from investments in marketing, operational process and people Total like-for-like sales were up by 2 6%, with solid growth across the core segments of education, care and early years, which were collectively up 3 1% Underlying operating profit of £7 4m was up 15 3% on the pro forma prior year

Markets
The Education and Care markets continue to show strong fundamentals for growth, supported by demographic trends that predict a steady increase in schools, nurseries and care homes

Education sales increased 2 4% on a like-for-like basis, and the quality of our sales (through a combination of mix and promotion) has improved gross margin

In the short term, individual school budgets remain challenged by reductions to public spending and there has been some disruption resulting from the move of many schools to 'academy' status We have felt some impact of this over the year but the longer-term opportunity in our core markets remains positive

Our Early Years and Care businesses have performed well, reflecting the underlying strength of these markets Sales to Early Years were up by 4 3% and to Care homes by 10 4%

A year of progress
Our priority this year was to complete the integration of The Consortium into the Group, supporting its goal of winning market share and increasing the amount spent by individual customers

In April 2012, The Consortium had acquired West Mercia Supplies, a former public sector purchasing organisation based in Shrewsbury We have made good progress on the journey to create one organisation and sharing services and technology to optimise efficiency The new customer catalogues have significantly reduced the number of stock lines by removing unnecessary variations and managing a core range across both customer bases

Our multi-channel strategy recognises that customers need a buying process that is simple and flexible With over 40,000 product lines, our expertise in selection and presentation is essential to make the customer experience as easy as possible We have invested in new websites that improve searching, browsing and ordering and are committed to continually improving the online offer This year's printed catalogues were the biggest and brightest ever, giving customers clear choices of budget, value and premium lines

From a sales perspective, our strategy is focused on increasing 'share of wallet', driving profitable sales and winning new customers Much of the education sector still uses catalogue and telephone ordering but we expect this gradually to shift to more flexible online systems and we need to help our customers with this journey So we are investing in new websites that improve our product information and make ordering easier, and have augmented our service with further telesales capability and a customer relationship management system to drive our field-sales efforts

Operationally, we have made progress in the efficiency of our warehouses by working to reduce the number of duplicated stock lines and ensuring improved stock availability at peak periods We offer customers a highly flexible delivery service including standard and premium delivery options

A passion for service and attention to detail of customer care is a defining characteristic of The Consortium We are constantly assessing our offer, making sure we have the most comprehensive range of products and the simplest ordering process, backed by a 'no-quibble guarantee' of satisfaction We were pleased in November 2012 to be named as Education Investor's Product Supplier of the Year, in recognition of our range of services and reputation in the marketplace

Future plans
In October 2013, Glenn Leech, previously Group HR director, succeeded Melanie Teal as managing director, completing our succession planning from the previous leadership team The new senior team is focused on maximising opportunities for growth in our key markets

Our growth plans focus on increasing the order values from existing customers as well as winning new ones We plan to offer the best and most flexible combination of product choice, value and delivery, backed by our market expertise and leading customer service

Further investments are planned in marketing and customer services and our customer relationship management system will target efforts at the most profitable opportunities Ongoing review of the operational process will drive efficiency across the division

We aim to grow in our core markets but remain alert to opportunities to supply into profitable niche opportunities

Our strategy in action

Call to action

Every business stands or falls on the quality of its sales operation And while the field sales team at The Consortium is one of the best in the market, its members simply don't have the capacity to visit every single customer in person

That's why the Company has set up a telesales division, working from its offices in Shrewsbury The 10-strong team is divided into business sectors – early years, care, and education – and also helps alert customers about special offers and campaigns

As a result of the initiative, The Consortium can reach an extra half a million prospects per year As Sales Director Matt Palmer explained, 'This gives the Consortium and West Mercia Supplies every chance of interacting with hard-to-reach customers, and growing revenue in the years to come '

How have the divisions performed?

Media

- New and renewed print contracts secured
- New digital contracts with leading airlines
- Process and security improvements giving competitive advantage
- Operational efficiency improved
- Operating profit up 11 1% to £2 0m

Figures

Divisional revenue

£29.9M

Operating profit

£2.0M

Markets

Dawson Media Direct supplies newspapers, magazines and inflight entertainment technology and content to over 80 airlines in 50 countries The business has a portfolio of blue chip airline and rail customers including British Airways, Eurostar, Cathay Pacific, Delta, United Airlines and RyanAir

Key facts

Number of magazines and newspapers supplied

150M

Global gateway hubs

7

Employees

100

	2012	2013
On time delivery to caterers	98 05%	**99.00%**
On time aircraft deliveries	99 98%	**99.00%**
Customer satisfaction	98 36%	**98.00%**
Security compliance	100 00%	**99.00%**
ABC audit compliance	100 00%	**100.00%**

Overview
The Media division made good progress with profit increasing to £2 0m, up 11 1% as a result of new contract wins, operational efficiencies and a more focused strategy

DMD provides print and electronic media to the travel market With its largest operations based in the UK, DMD works with partners throughout the world to supply content to over 80 airlines into more than 50 countries and is also the exclusive supplier of newspapers and magazines to Eurostar

In addition to its core operation of supplying printed newspapers and magazines, DMD continues, through its joint venture with Bluebox Avionics Ltd, to develop a digital offer including the supply of iPads to airlines, the provision of inflight content for these and a media portal for in-transit customers currently on trial with Eurostar

A year of progress
The supply of media to airlines is contract based, so winning and retaining long-term customers is essential to a successful business model Our strategy is to provide an unmatched service and value, thereby retaining our key customers and selectively infilling with new customers, targeting those routes and locations in which we already operate

In February 2013, DMD was appointed the exclusive international supplier of newspapers and magazines to the world's biggest passenger carrier, United Airlines This is a significant contract adding scale to our operation and helping to underpin international operations for three years Other contract highlights included an agreement with Trinity Mirror to distribute more than one million copies a year to Stansted and Luton airports

Operationally, the UK warehouse operations of DMD are now managed by Smiths News on an outsourced basis Airport security is a paramount consideration and DMD is the only focused specialist with Department for Transport accreditation

We have centralised the majority of the international administration into the UK head office at Langley, facilitating savings but also giving us greater control of supplies and allocation This year the business was accredited by the Audit Bureau of Circulations, a move that will help strengthen publisher relationships and should improve underlying demand from publishers for airline sales

The digital side of the division is managed through a joint venture with Bluebox Avionics We are now supplying over 8,000 iPads worldwide, boosted by a recent contract to supply 1,500 units to Hawaiian Airlines, our first entry into the US market Other contract gains this year include supply to Aeromexico, Primera, and Jetairfly

Disposal of MMC
In April, we took the decision to dispose of Marketlink Marketing Communications Limited ('MMC'), the division's small marketing fulfilment and merchandising arm MMC was a legacy from the Group's acquisition of Dawson Holdings PLC with minimal synergy to other activities in the division or the wider Group After careful review we concluded the business was not complementary to our strategy

Future plans
We aim to increase sales and profitability of DMD, with a focus on winning business in those areas where we already operate, while improving the productivity of existing operations Our priorities are to
- Win further contracts to supply printed media, targeting those routes with greatest overlap to current operations, and specific locations of international growth
- Enhance our digital services by developing offers for both the premium and economy digital travel market
- Improve further the quality of our logistics operation and back office functions, reducing costs, improving standards and ensuring we deliver demonstrably better service than competitors

Our strategy in action

Helping the *Mirror* take flight

Most publishers would be delighted to reach an extra 30,000 readers as a result of distributing complementary newspapers in airports That's exactly what Trinity Mirror has achieved, thanks to Dawson Media Direct

The Daily Mirror is now distributed free of charge at Stansted and Luton airports, where the majority of passengers fall firmly within its target demographic

Dawson Media Direct installed dispensing machines in the airport departure lounges, at a point where travellers are unable to purchase a newspaper from any other outlet As a consequence, the *Mirror*'s readership has grown substantially at these locations, helping to swell its ABC figures and attract new readers

As well as bringing in extra revenue for Dawson Media Direct, the deal helps raise awareness throughout the industry about the value of the Company's services in growing circulation and reaching new markets

What is our approach to corporate responsibility?

We take corporate responsibility seriously and review our approach by focusing on four key areas: workplace, marketplace, environment and community.

What is our approach to corporate responsibility?

Corporate responsibility report

We're committed to acting responsibly towards our people, the environment, and the communities in which our businesses operate. We also help the industries we work in to develop and share best practice so that we can all play our part in acting responsibly.

We set ourselves annual goals in four key areas workplace, marketplace, environment and community

The Board and Group Executive take a hands-on role in measuring performance in Corporate Responsibility They set annual performance targets in our four focal areas, and the Corporate Responsibility Committee oversees progress towards achieving them

The Corporate Responsibility Committee reports to the Group Executive at least twice per year and the Board annually In addition, a report on health and safety is provided to the Group Executive on a monthly basis and considered at the following Board meeting, further reports on environmental emissions and monitoring, and others matters of importance in Community, Marketplace and Workplace, are provided to the Group Executive and Board, as necessary throughout the year

'We work hard to develop our people, providing them with every opportunity to achieve their goals.'

Workplace: creating the best possible working environment

We work hard to develop our people, providing them with every opportunity to achieve their goals Our Talent Strategy gives staff throughout the Group an opportunity to identify and pursue progression routes, while our engagement surveys ensure that the workforce has a clear line of communication with the management team

Our Human Resources policies are reviewed at least annually, ensuring they are consistent with legal requirements and best practice We communicate changes to managers and employees across the Group so that they have the most up-to-date information about the policies that affect them

Marketplace: driving industry best practice

The breadth of our distribution networks is an important means of discharging our duties to the markets we serve For example, Smiths News ensures that a diverse range of print media is available even in the country's remotest places, while The Consortium provides schools, care homes and early years providers across the UK with the right equipment for their needs

The extent of our reach means we have a responsibility to be transparent, and to ensure the highest standards in our supply chain We thus work with industry associations to develop codes of practice that safeguard the interests of suppliers, retailers and consumers, as well as helping to identify and implement appropriate governance and regulatory procedures in our key markets

A key focus for this year has been redevelopment of the News Industry Charter The Group played an active role in this process, and the Charter was relaunched in March 2013, following a review by the Independent Chairman, Michel Woodman

Environment: treading more lightly on our planet

Across the Group, we work hard to minimise energy consumption and reduce our carbon emissions

Our efforts have contributed to a carbon reduction performance, of 4% in FY2013 This follows a reduction of 4% in the previous year, and 8% in FY2011

In 2013 we were ranked in the top 5% of companies in the Government's Carbon Reduction Commitment (CRC) scheme – a noteworthy achievement in light of our large-scale operation and dependence on traditional methods of transport

Accreditation by the Carbon Trust plays an important role in signposting our environmental commitments Not only does it alert staff to the importance of acting responsibly in relation to the environment, but it also serves as an objective assessment of our credentials in this area We have a programme of activity and initiatives across the Group aimed at reducing our impact on the environment In addition to periodic review of these by the Group Executive and Board, they are captured and monitored as part of our data and evidence submission to the Carbon Trust

We were therefore pleased to be successfully reaccredited for the Carbon Trust Standard in September 2012 Our next evaluation will be in February 2014, giving us every incentive to continue striving for the highest standards of environmental care across the Group

To find out more about our environmental policies, please visit www smithsnews co uk

What is our approach to corporate responsibility?

Corporate responsibility report continued

Responsibility in action

Community: giving back to society

The Group interacts with a vast number of communities throughout the UK, and we are dedicated to enhancing life for the people in them That is why we encourage and empower our staff to contribute to the wider society

We have continued to develop our community programme so that its focus on fundraising is augmented by greater voluntaryism and hands-on involvement by our staff in charitable works

Our Community Link-Up initiative empowers staff at every level of the Group to give time to worthy causes We encourage staff to identify their own commitments, which range from helping with local youth groups to visiting elderly people in care homes, or raising money for charitable organisations

This year the Group has sponsored two literacy schemes, run in partnership with the Bath Rugby Foundation and the National Literacy Trust Each programme encourages young people to read more widely, helping to develop their literacy skills and encouraging a love of books We free up staff to give time to volunteer on these programmes, so they can deliver training events in schools and libraries alongside specialists from the two schemes

Ultimately, the focus of our charity work is on the people who benefit from our efforts It is our way of giving something back to society, and sharing the fruits of our success as widely as possible We will continue to find ways of doing this that inspire our staff to give time and money in the service of others

Health & Safety

The Group aspires to maintain the highest standards of health & safety, so as to protect our employees, customers, contractors, and members of the public

Following last year's appointment of a Group Head of Health and Safety, the Group Executive and Board have adopted a strategy to deliver a step change in our health & safety culture, performance and practice by 2015

The introduction of a Group-wide risk management and compliance tool ('Safeguard') will help us to improve further our monitoring and management of health & safety incidents, as well as audits, risk assessments, and associated remedial or preventative actions

A summary report of Group health & safety performance is provided to the Group Executive each month, and the Audit Committee and Board conduct regular reviews of incidents, trends and overall performance The result is a clear focus on health & safety throughout the Group, providing a firm base from which to achieve our improvement targets over the coming years

2013	Smiths News	Bertrams	The Consortium	Group Totals
Major Injuries	2	2	0	4
Injuries resulting in over 3 days absence from work/hospitalisation	24	7	1	32
All RIDDORs[1]	26	9	1	36

	2012	2011	2010	2010 LFL[2]	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[1]	45	55	71	44	42	64

1 RIDDOR Reporting of Injuries, Diseases and Dangerous Occurrences Regulations
2 LFL excludes the impact of the new contract areas and depots acquired in 2010 to compare on a like-for like basis with 2009

Supporting children with literacy

Literacy plays an important role and is a common theme across our Group This year we've invested in two programmes that encourage and help children improve their literacy skills as well as providing employees with the opportunities to volunteer

Bertrams has partnered with the National Literacy Trust to deliver The Young Readers Programme in Norwich-based schools The programme encourages children to read for enjoyment, as well as teaching them important skills

The Consortium and Smiths News have been working closely with the Bath Rugby Foundation to deliver a new and exciting literacy programme called Stickability Based on a sticker reward system, the programme helps children aged 9 to 10 develop their literary ability and confidence, this scheme provides classroom based activity as well as a physical element

Vicky Heslop, Education Manager at Bath Rugby, says 'Stickability has been a huge success so far, it's had such a positive impact on the children we have worked with '

Dave Attwood and Ryan

Staff cycle from
Paris to Swindon

Meeting global standards

An endorsement of our ongoing work in Corporate Responsibility comes in the form of our inclusion in the FTSE4Good index

This equity index series is designed to facilitate investment in companies that meet globally recognised Corporate Responsibility standards After a recent process of reassessment, the Group's ongoing inclusion in this index was confirmed, evidencing our adherence to stringent environmental, social and governance criteria

It's all about 'Linking-Up'

Our Community Programme has grown substantially over the last few years and this year we launched Community Link-Up, a new initiative that combined fundraising, volunteering and staff Linking-Up – in their workplace or in their community

Staff feedback told us that we needed to provide employees with fun ways to do this, so this year Jonathan Bunting, Managing Director at Smiths News, hosted the company's first ever football tournament The event involved teams from across the Group, it gave staff an opportunity to meet their colleagues from other locations

Another initiative was the introduction of Link-Up fortnight, which gave employees the opportunity to 'Link-Up' in their working environment no matter where they work or which part of the Group they work in We encouraged staff to organise events that enabled staff to get to know each other better as well as better understand what other departments do

Another first, this year's bike ride hit foreign soil as staff cycled from Paris to Swindon for charity The bike ride was a great success, with cyclists from across the Group and of varying abilities raising over £20,000 for charity

Dan Magness, Freestyle World Champion

Group football tournament

What is our approach to corporate responsibility?

Putting people first

Across the Group, we know that our people are our greatest asset. Without their effort and commitment, we would not be able to deliver market-leading service in our chosen markets.

We work hard to develop our team, giving them every opportunity to shine We identify those with potential, and help them to grow with the business That way, all of our personnel are given every chance to develop their career in a way that stimulates and inspires them

We also recognise the value of appointing from outside the Group, drawing in people who offer a fresh perspective on our way of working Our recruitment practices therefore look to attract the very best talent from other industries and organisations, as well as considering internal applicants As a result, we have a broad range of experience at Board and Group Executive level, and throughout the Group

Our policy is to create a culture throughout the Group that is free from discrimination and harassment and we will not permit or tolerate discrimination in any form Proper consideration is given to applicants for employment from disabled people Should an employee become disabled when working for the Group, efforts are made to continue their employment and provide retraining if necessary

Nurturing talent
Our Talent Strategy operates at every level of the Group Its origins lie in developing our most promising people so that they can one day occupy the most senior positions in our businesses We are proud that many of our senior vacancies are filled by internal candidates

The benefits of such an approach are that we retain good quality people, by giving them encouragement and opportunities to take on more responsibility In consequence, they develop unparalleled expertise in their chosen markets, as well as a deep understanding of our culture

Developing talent is by no means focused just on executives Our goal is a fully inclusive programme, tailored to the needs of staff at every level We continue to make good progress in pursuing this objective

A space to learn
This year saw the launch of 'My Learning Space' – our online learning portal where staff can access a variety of development materials, as well as booking onto courses and completing compulsory training in Health & Safety

The merit of the system is that it can be accessed around the clock, and enables staff to design their own training and ensures any compulsory training is completed and can be monitored With a 24-hour operation across parts of the Group, including many staff working at night, the system will greatly increase access to training opportunities

As well as providing a valuable repository of training materials, 'My Learning Space' will help to engender a habit of self-directed learning Augmented by training courses and qualifications for staff in their particular fields of interest, it provides a holistic approach to nurturing our people, and making the most of their abilities

Graduates and apprentices
Alongside the development opportunities we provide for all staff, we also operate targeted schemes for personnel

For graduates, we offer an 18-month programme that exposes candidates to a wide variety of our business activities This continues to prove successful in attracting and retaining high-calibre people of great potential

Our award-winning apprenticeship programme also helps us to develop the skills of our workforce This is available not just to school-leavers, but to any employee who wishes to study for a qualification while working

We also offer Modern Apprenticeships in a variety of business areas such as IT, administration and personnel management

Staff engagement
Our 'Team Talk' engagement survey is reviewed on an ongoing basis to ensure it delivers the most insightful responses It involves staff in direct feedback about the Group's work and results in bespoke action plans that are fully owned by the Group Executive

The response rate for 'Team Talk' is more than 80% The positive feedback received has prompted us to participate on a Group-wide basis in the Best Companies Survey in the autumn of 2013 The Consortium is already involved in this initiative, and recorded its best ever result this year and was once again identified as 'One to Watch' in the rankings

We encourage staff interest and involvement in the performance of the Company Supporting this goal, we have a comprehensive communication programme, including monthly newsletters, regular updates, briefings on business performance, and bespoke materials for other matters that affect staff, such as pensions, speak-up policies, sharesave schemes, etc

To encourage and ensure two-way communication we consult with staff and their representatives, both directly and through the Employee Forum Staff can also raise questions through a confidential email channel and a well-publicised confidential 'speak up' line is available for staff to raise any concerns

Auto-enrolment goes live

The government's auto-enrolment pension programme was launched in July 2013, and we developed a communications campaign to disseminate the change throughout the workforce. This relied on a series of simple, impactful messages that were issued via a range of media to embed understanding among our employees at an early stage in the process.

Our strategy was successful in raising awareness of pensions, and alerting staff across the Group to their entitlements under the new scheme

Corporate governance

Board of Directors

	Dennis Millard Chairman Aged 64	**Andrew Brent** Independent Non-executive Director Aged 54	**Anthony Cann** Independent Non-executive Director Aged 66
Date of appointment	31 August 2006	1 September 2008	31 August 2006
Background and experience	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 Halfords Group plc and a non-executive director and Senior Independent Director of Debenhams plc and Premier Farnell 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 2012 He is Chairman of Trustees of the charity The Holy Cross Children's Trust	Andrew Brent joined the Board on 1 September 2008 He was most recently 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 Proctor and Gamble Inc	Anthony Cann joined the Board on 31 August 2006 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 Chairman of the Governors of Haberdashers' Adams' Federation Trust

John Worby
Senior Independent
Non-executive Director
Aged 62

31 August 2006

John Worby joined the Board on 31 August 2006 and is the Senior Independent Director He retired as Group Finance Director of Genus plc in March 2013, having previously been 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

Mark Cashmore
Group Chief Executive
Aged 53

31 August 2006

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

Jonathan Bunting
Managing Director, Smiths News
Aged 41

1 April 2010

Jonathan Bunting joined the Board on 1 April 2010 He joined WH Smith News 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

Nick Gresham
Chief Financial Officer
Aged 42

1 August 2010

Nick Gresham joined the Group and was appointed to the Board on 1 August 2010 Prior to joining, 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 Finance Director of Homebase Before joining GUS Nick worked for Virgin Retail and Debenhams

Stuart Marriner
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

Corporate governance

Group Executive

Mark Cashmore
Group Chief Executive

Jonathan Bunting
Managing Director, Smiths News

Nick Gresham
Chief Financial Officer

Glenn Leech
Managing Director (Designate), The Consortium
Aged 38

Glenn Leech joined WH Smith News in 2004 as Human Resources Director Prior to joining WH Smith News, Glenn 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 will take up the role of Managing Director, The Consortium on 26 October 2013

Sarah Miles
Group Human Resources Director
Aged 45

Sarah Miles joined the Group on 5 August 2013 Prior to joining, Sarah led the Chartered Institute of Personnel and Development's expansion into Asia Prior to that, she spent 12 years at PepsiCo in a variety of HR leadership roles, most recently as Senior HR Director of PepsiCo's UK Manufacturing & Logistics divisions where she also had HR responsibility for Finance, IT and Special Projects Before joining PepsiCo she worked for Pearson and Marks and Spencer

Melanie Teal
Managing Director, The Consortium
Aged 45

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 Melanie will leave the business on 25 October 2013

Graeme Underhill
Managing Director, Bertrams
Aged 55

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

Richard Webb
Group IT & Services Director
Aged 48

Richard Webb joined WH Smith News 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, assuming responsibility for Group Services on 1 May 2013

Introduction by the Chairman

The Board recognises that effective corporate governance and a compelling strategy are of fundamental importance to the continued success of Smiths News PLC.

With this in mind, we are committed to conducting business professionally, fairly and with honesty and integrity. These are messages which are reinforced and resonate throughout the Group and have put the Group in good stead and, this year, we have continued to focus on promoting good corporate governance and careful stewardship, underpinned by rigorous risk management processes to support the effective implementation of our strategy.

During the year, as part of our health and safety strategy, we further developed systems and practices which both encourage a safe working culture but also focus attention on common causes of incidents and serious injury. As a result of these developments, we have seen significant reductions in incidents and related serious injuries year-on-year. Indeed, this year we have seen a reduction in reportable injuries resulting in over 3 days absence from work of 20%.

As a result of the Group's international expansion in recent years, we have welcomed colleagues from many overseas jurisdictions. One consequence of this expansion has been the Board's desire to ensure that our governance systems and practices are replicated internationally. I am pleased to report that the Group is making good progress in this respect and that international governance is at the forefront of each business division's executive team.

During February and March this year, the Audit Committee undertook a full review and competitive tender of external audit services and, after careful consideration, recommended the reappointment of Deloitte LLP. The Board is pleased with the outcome and remains confident that Deloitte's commitment to improving the quality of the audit, fiercely retaining their independence and a strengthened client service team will enhance the effectiveness of the audit process.

The need for diversity on boards and in senior management is clearly on governance agendas at the moment. The Board recognises the benefits of diversity and seeks to recruit the best-qualified candidates to provide the support and expertise to implement the Group's long-term strategy. Diversity in all its forms, be it gender, skill set, cultural background, disability or ethnicity is paramount in the Group's succession planning and, as opportunities arise, we will continue to seek candidates who help us meet these criteria.

In September 2012, the Financial Reporting Council issued a revised UK Corporate Governance Code, effective for accounting periods beginning on or after 1 October 2012, and revised guidance for Audit Committees. In preparing the Corporate Governance report, Audit Committee Report and Nominations Committee Report, as a move towards full compliance next year, we have chosen to adopt early certain disclosures required by the revised Code. Similarly, you will see that in the Remuneration Report we have chosen to adopt early certain aspects of the new directors' remuneration reporting regulations, which came into force on 1 October 2013 and are effective for accounting periods ending on or after 30 September 2013.

Finally, further to embed our core values, principles and ethics across the Group, we provided all employees with a 'How We Work' brochure setting out the values and standards expected of them in their day-to-day activities. I am sure that this and all of the other initiatives we have put in place during the year will further strengthen our position as a trusted and respected partner to the suppliers and customers with whom we do business and to you, our shareholders.

Dennis Millard
Chairman

Corporate governance

Smiths News PLC is committed to achieving and maintaining the highest 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 and before 1 October 2012, are contained in the UK Corporate Governance Code 2010 (the 'Code').

Statement of compliance with the Code

Throughout the year ended 31 August 2013, 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 40 and 41, the Nominations Committee Report on page 42 and the Remuneration Report on pages 43 to 56, describe how the Company has applied the main principles of the Code during the year.

Governance framework

The Group operates within a clear governance framework, which is outlined in the diagram below and set out in this report. The Group's risk management framework is described in the risk management section on page 38.

The Board

Board composition

On 16 October 2013, 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 32 and 33.

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 32. Between 18 July 2012 and 21 November 2012 he acted as Interim Executive Chairman of Halfords Group plc, whilst Halfords undertook the search for a new chief executive. The Board believes that his chairmanship of the Company was not adversely affected during this period 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 Group, and had eight scheduled meetings and one additional meeting 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 Group, 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

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 Resources available to the directors include

- membership of the Deloitte Academy, a training and guidance resource for boards and directors,
- a programme of head office and business visits,
- separate presentations by business and functional teams,
- annual reviews with the Chairman to identify any training and development needs,
- advice and regular updates from the Company Secretary on governance, legislative changes affecting the business and their duties as a director, and
- access to independent professional advice at the Company's expense

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 23 January 2014 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

Details of the directors' service contracts, remuneration, options to subscribe for shares in the Company, policy on shareholdings 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 43 to 56

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 Company's 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, each with its own formal terms of reference which are reviewed annually and then referred to the Board for approval

Details of the Audit, Nominations and Remuneration Committees, including their role and responsibilities, can be found in the Audit Committee Report on pages 40 to 41, the Nominations Committee Report on page 42 and the Remuneration Report on pages 43 to 56

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

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[1]	**8**	**4**	**2**	**7**
Dennis Millard	8	4	2	7
Jonathan Bunting	8	–	–	–
Mark Cashmore	8	–	–	–
Nick Gresham	8	–	–	–
Andrew Brent	8	4	2	7
Anthony Cann	8	4	2	7
John Worby	8	4	2	7

1 There was one additional Board meeting held by telephone conference call during the year With the exception of Andrew Brent, all of the directors were in attendance on that call

The Board has met twice since 31 August 2013 and both meetings were attended by all of the directors In addition, the Audit Committee has met once and the Remuneration Committee has met twice since 31 August 2013

Evaluation of the Board and its committees
The Board has a formal process for evaluating its performance, the performance of its committees and of individual directors As reported in last year's Annual Report and Accounts, an external review of the Board's performance was conducted by OE Cam in 2012

This year the process took place between July and September and 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

The responses to the questionnaire were considered by the Board at its September meeting The evaluation confirmed the conclusion drawn from the previous external evaluation that the Board operated effectively, robustly and with mutual respect There were a number of actions that were agreed to ensure that the Board, its committees and individual directors continue to work effectively, including increasing the use of executive summaries to facilitate the most efficient use of the Board's time, and continuing to devote the principle part of the Board's time to strategic imperatives and business performance

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

Corporate governance

Corporate governance continued

Risk management
The Board confirms that there is an ongoing process for identifying, evaluating and managing significant business 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

Risk management framework
The Group's risk management framework is outlined in the diagram below

Risk management process
The key features of the risk management process are as follows
- there is an Internal Risk Committee in each business which is 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 the 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 the 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 at its July Board meeting The results of the review will support decision making in the 2013/14 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 Group, 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 Group, 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 of budgeting and planning together with monitoring and reporting the performance of the Group'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 policy, 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 and Safety Policy, which is reviewed annually by the Board,

- Health and Safety Risk Management teams, working with the businesses to assess health and safety risks and introduce systems to mitigate them Details of major business incidents are reported to the Internal Risk Committees and the Audit Committee, 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 the Audit Committee,
- an IT Security Policy to protect the Company, its employees and affiliates from illegal or damaging actions by third parties,
- a Code of Business Conduct which takes into account the interests of all stakeholders,
- a Public Interest Disclosure Policy and associated whistleblowing 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 The presentations are available to view on the Company's website at www smithsnews co uk

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 and Accounts 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 2013

Corporate governance

Audit Committee report

Membership
John Worby (Chairman)
Andrew Brent
Anthony Cann
Dennis Millard

The Audit Committee is chaired by John Worby All the members of the Audit Committee are independent non-executive directors, with the exception of Dennis Millard, who is Chairman of the Board As permitted by the UK Corporate Governance Code (as the Company is outside of the FTSE 350), Dennis Millard is a member of the Committee In the light of his extensive financial experience, the Board believes that he makes a valuable contribution to the Committee and do not consider that his independence presents any issue or concern

John Worby, who is a member of the Financial Reporting Review Panel, and until March of this year was the Group Finance Director of Genus plc, is considered by the Board to have recent and relevant experience to chair the Committee Each of the other members of the Committee has extensive business experience

Role and responsibilities
The role and responsibilities of the 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 reviewed annually by the Committee and 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,
- reviewing the content of the Annual Report and Accounts and advising the Board whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy,
- 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,
- considering and making recommendations to the Board as to the appointment, reappointment or removal 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 ('whistleblowing'), and
- reviewing the Group's systems and controls for the prevention of bribery

The Audit Committee is required to report its findings to the Board, identifying any matters in respect of which it considers that action or improvement is needed, and make recommendations as to the steps to be taken

Meetings
The Committee met four times during the year to consider an agenda planned around the Group's financial calendar All Committee members were in attendance at each of the meetings

At the invitation of the Committee, the Group Chief Executive, Chief Financial Officer, Managing Director Smiths News, 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

The Committee met twice with the external auditor without management present and held a separate private meeting with the Group Head of Internal Audit

The Committee has met once since 31 August 2013

Activities during the year
Detailed below is an overview of the key areas considered by the Committee during the year ended 31 August 2013 and up to the date of this report

Financial reporting
During the year the Committee reviewed reports from the Chief Financial Officer and the external auditor on matters of significance in relation to the financial statements for the half year and the full year to 31 August 2013, this included consideration of the key estimates and judgements made in preparing the financial statements It also reviewed the content of the Interim Financial Report for the half year to 28 February 2013 and the Annual Report and Accounts for the year to 31 August 2013 to ensure that it provided the necessary information to provide shareholders with a fair and balanced assessment of the Company's performance, business model and strategy

Details of the significant issues/key judgements considered by the Committee in relation to the 2013 financial statements are as follows

Going concern – A review of the Group's bank facilities, profit and cash forecasts to confirm it can operate within the level of its current financing for the foreseeable future

Business combinations and goodwill – The carrying value of acquisitions including whether there has been any impairment based on a review annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable In addition, consideration was given to the accounting for deferred consideration relating to the Consortium acquisition

Property contracts – Management's estimation of the exposure to operating and contingent leases and whether the provisions held are reasonable in the circumstances

Taxation – That the Group has adequately provided for known tax risks (both UK and overseas) based upon the best estimate of the economic outflow

Retirement benefit obligation – That the Group recognises and discloses its retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 and IFRIC 14 Particular consideration was given to the accounting for commitments under the schedule of contributions agreed with the trustees of the pension scheme as discussed in Notes 6 and 34 to the Accounts

Inventories and Trade Receivables – That the carrying value and management estimates of inventories and receivables across individual Group businesses are stated at appropriate value and provisions are sufficient

Non-recurring and other items – The appropriateness of the classification of items separately disclosed as non-recurring and other items

Internal control and risk management
The Audit Committee is responsible for keeping under review the effectiveness of the Company's risk management and internal control systems During the year, the Committee reviewed the key risks facing the Group, including risk maps and various legal and regulatory risk reports It also considered reports from the Head of Internal Audit on the effectiveness of the Company's internal controls

As a result of this work, the Committee reported to the Board that it was not aware of any significant deficiencies or material weakness in the Company's systems of internal control

During the year the Committee also received and reviewed reports on the Company's treasury, taxation and insurance activities and related policies

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, reappointment or removal of the external auditor on an annual basis

Deloitte LLP's ('Deloitte') original term of engagement is regarded as having commenced on 31 August 2006, being the date of demerger of old WH Smith PLC and, in line with professional standards, it has a policy of rotating partners every five years

To assess the effectiveness of the external auditor, each member of the Committee and the Chief Financial Officer completed an extensive questionnaire covering matters such as the external auditor's processes for internal review of accounting judgements, including understanding of the key issues, the delivery and execution of the audit plan, and the robustness and perceptiveness of the external auditor Areas for improvement were identified and communicated to Deloitte for action

As signalled in last year's Annual Report and Accounts, a tender for external audit services was held during the year Three audit firms were invited to tender, including the current incumbent, Deloitte A panel, including the Chairman of the Audit Committee and the Chief Financial Officer, considered a written submission and oral presentation from each of the firms, as a result of which the Audit Committee recommended to the Board the reappointment of Deloitte

The Committee 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 and during the year also provided separate advice on the Group's digital strategy project (as noted in last year's Annual Report) and on European wide cash pooling The Committee is satisfied that Deloitte has adequate safeguards in place, including separate engagement teams led by separate engagement partners, to ensure that its independence is not impaired 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 is satisfied that Deloitte continue to provide an effective audit service and has recommended to the Board that they be reappointed Accordingly, a resolution to reappoint Deloitte will be put to shareholders at the AGM

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 The Company's Head of Internal Audit is responsible for the overall management of internal audit

In fulfilling its responsibilities, the Committee has reviewed the following in the period
- the scope, resource and activities of the internal audit function,
- 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

Whistleblowing and fraud
During the year the Committee reviewed the arrangements by which incidences of suspected fraud or other malpractices can be reported The Group operates a telephone hotline whereby employees can report in confidence suspected incidences of fraud or non-compliance with Group policies and practices All such incidences are investigated by Internal Audit and/or management and reported to the respective business's Internal Risk Committee and the Audit Committee On completion of an investigation findings are reported to the appropriate Internal Risk Committee and the 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 Annual Report and Accounts 2013, including the effectiveness of the Group's system of internal control and risk management

The Chairman of the Audit Committee will be available at the AGM 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 2013

Corporate governance

Nominations Committee report

Membership
Dennis Millard (Chairman)
Andrew Brent
Anthony Cann
John Worby

The Nominations Committee is chaired by Dennis Millard, who is Chairman of the Board The other members of the Committee are Andrew Brent, Anthony Cann and John Worby, who are all independent non-executive directors The Group Chief Executive, Group Human Resources Director and advisers are invited to attend meetings as appropriate

Role and responsibilities
The role and responsibilities of the 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 are reviewed annually by the Committee and then referred to the Board for approval The principal responsibilities of the Committee are

- 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

Meetings
The Committee met twice during the year and both meetings were attended by all Committee members The Group Chief Executive, having been invited by the Committee, also attended both meetings

Activities during the year
In the year ended 31 August 2013 and up to the date of this report the Committee has considered the external review of Board effectiveness carried out by an external consultant, OE Cam, during the period July to October 2012 (in December 2012) and considered succession for the role of Managing Director, The Consortium (in March 2013)

In addition, the Committee is scheduled to meet in December 2013 (postponed from September 2013 due to the appointment of the new Group Human Resources Director) to consider the following

- review Board and Group Executive succession plans,
- review the Group's diversity policy,
- review its own effectiveness,
- review the outcome and expressions of opinion from the recent Board evaluation in relation to non-executive director succession planning and the skills, expertise and knowledge which might enhance the Board's performance, and
- review and approve its terms of reference

There were no new appointments to the Board during the year

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 When making an appointment, the Board prefers to select the best-qualified candidate to provide it with the support and expertise required to implement the Group's long-term strategy, rather than to fulfil any fixed quota

The Company has reviewed diversity in the context of gender, ethnicity and disability across all businesses in the Group and was pleased to note that

- there is 25% female representation on the Group Executive Board,
- 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 20% female representation across all of the Group's executive boards, and
- across the Group, female representation in management roles is 31%, which is in line with the Group's total population, where females represent 36% of all employees This compares very favourably with the logistics industry average, where less than 10% of managerial roles are held by women

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

Dennis Millard
Chairman of the Nominations Committee
16 October 2013

Remuneration report

On behalf of the Board, I am pleased to present the directors' Remuneration Report for the year ended 31 August 2013.

Dear Shareholder
During the year, we undertook a comprehensive review of our executive remuneration arrangements, consulted with our major shareholders and investor representative bodies and, in the light of those consultations, implemented a number of changes The context, rationale and details of those changes are set out below

Context and rationale for changes
During the last year, the Committee felt it was necessary to undertake a full review since it is over six years after our demerger and the executives' packages were still largely reflective of when Smiths News was a division of WH Smith PLC with a single business, not a listed company with several businesses We wanted to assess market competitiveness and align with best practice, in light of the significant change in the complexity and size of the Group

The review and shareholder consultation resulted in a number of changes to the package, which was prepared and should be considered with the following context in mind

- **Strong performance** Performance over the period from demerger to date has been strong In particular, over the last year underlying profit before tax is up to £53m, EPS is up to 22 4p, and our market capitalisation has increased significantly to over £340m
- **Exceptional leadership** Smiths News is a high-performing organisation and has a high-performing team of individuals leading it We want to retain that leadership through the next phase of Smiths News' growth It should be noted that, apart from a change of Finance Director three years ago, following retirement of the previous incumbent and the addition of the head of The Consortium business, the entire executive team have remained committed and loyal to the Company throughout This has been a major factor in the success of the business and one we are keen to perpetuate
- **Changing shape of the business.** There has, since demerger, been a significant change in the complexity and size of the Group Although we have made changes since the demerger, these have largely been to bring arrangements more in line with the market, rather than bring them up to the levels that we think are appropriate for the business now
- **Appropriate, responsible and balanced approach to pay** As a result of the review, the Committee felt some areas of the packages were generous, but in other areas, they were not adequately rewarding or incentivising, nor retentive enough In terms of overall positioning on pay, the changes would bring our executive directors to around market median Furthermore, we would not envisage making any further significant adjustments over the next couple of years
- **Shareholder consultation.** We consulted widely with shareholders on the changes and were pleased with the measure of support received All supported many of the changes and some were fully supportive of all the changes We listened to all the feedback and addressed specific concerns raised, by implementing phased salary increases and reinforcing our shareholding requirements

Changes to executive remuneration
In light of the background and rationale above, we are increasing executive salaries (on a phased basis), to bring them to broadly market competitive levels However, they will still be below a number of our competitors (some of which are significantly smaller than Smiths News) At the same time, we are proposing a number of other changes (including reducing pension benefits significantly), as set out below

- **Increase in executive director salaries phased in over two years (²/₃rds in the first year and ¹/₃rd in the second year) but balanced by a significant reduction in Company pension benefits (all taken in the first year)**
  - Group Chief Executive salary increases from £329,500 to £420,000 (+27%) but with Company pension benefits reduced from 30% to 20%, so the overall net increase is +17 7%
  - Chief Financial Officer salary increases from £237,500 to £280,000 (+17 9%) but with Company pension benefits reduced from 25% to 20%, so the overall net increase is +13 1%
  - Smiths News Managing Director salary increases from £250,000 to £280,000 (+12%) but with Company pension benefits reduced from 25% to 20%, so the overall net increase is +7 5%
- **Decrease pension benefits (30%/25% to 20% of salary)** Following the market review, the Committee felt it appropriate to bring pension benefits more in line with the market This has resulted in a reduction to 20% of salary for all executive directors (from 30% of salary for the Group Chief Executive and from 25% of salary for the other executive directors)

Corporate governance

Remuneration report continued

For the avoidance of doubt, the table below sets out this schedule of increases

	Mark Cashmore	Nick Gresham	Jonathan Bunting
1 Sep 2012.			
Salary	£329,500	£237,500	£250,000
Pension	30% of salary	25% of salary	25% of salary
Effective 1 Jan 2013			
Salary	£390,000 (+18 4%)	£267,500 (+12 6%)	£270,000 (+8%)
Pension	20% of salary	20% of salary	20% of salary
Net increase	+9 3%	+8 1%	+3 7%
Effective 1 Jan 2014			
Salary	£420,000 (+7 7%)	£280,000 (+4 7%)	£280,000 (+3 7%)
Pension	20% of salary	20% of salary	20% of salary

- **Increase in deferral into shares (33% to 50%)** To increase retention and alignment with shareholders, half of any bonus (currently a third) will now be deferred into shares for two years
- **No change in maximum incentive opportunities.** This remains at 100% of salary for our annual incentive and 100% of salary for long-term incentives, for all executive directors Although this is less than in some comparable companies and we might like to have increased this for the long-term incentive to increase the incentivisation and shareholder alignment, these levels seem to be generally in line with companies of similar market capitalisation
- **Long-term incentive measurement.** At present, the long-term incentive is split between the Economic Profit Plan and the Long-term Incentive Plan ('LTIP') (which has EPS targets) We considered changing these but concluded they were appropriate
- **Removal of liquidated damages provision under change of control for Group Chief Executive.** 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 This was the only provision across all of our executive directors' service contracts which was not in line with that philosophy and best practice, and we addressed this by removing the clause
- **Introduction of best practice features.** This includes clawback provisions across our annual bonus plan, economic profit plan and LTIP, already introduced in the last financial year It is also proposed to introduce dividend equivalents, further to align with shareholders' interests (see page 53 for further details and also Resolution 14 of our AGM Notice)
- **Reinforcement of shareholding guidelines** In line with best practice and in the absence of special circumstances, executive directors are required to build up shareholdings of ordinary shares, over a period of 5 years since we introduced the policy or appointment, to at least 1 5 times salary with restrictions on sales of shares until the level is reached

The Committee believes these changes represent an appropriate, reasonable and balanced approach to executive remuneration We believe that they are in the in best interests of the Company, and will contribute towards successful execution of the business strategy and shareholder value

Executive remuneration for FY2013/14

Following the review outlined above, the Committee does not expect to make significant changes to the executive remuneration arrangements in the coming year Currently, the only change expected will be the second phase of the salary increases, which will be effective as from January 2014

The following table provides an executive summary of the executive remuneration arrangements expected to apply for Executive Directors for the financial year ending 31 August 2014

FY2013/14	Mark Cashmore	Nick Gresham	Jonathan Bunting
Salary	£390,000	£267,500	£270,000
Salary (w e f 1 Jan 2014)	£420,000 (+7 7%)	£280,000 (+4 7%)	£280,000 (+3 7%)
Annual bonus maximum opportunity		100% of salary	
Long-term incentive maximum		100% of salary (split between EPP and LTIP)	
Pension		20% of salary	

New reporting regulations

The Committee welcomes the introduction of revised reporting regulations These will be adopted, in full, as required, for the 2013/14 Remuneration Report Although not required for this year because our year end is 31 August, the Committee has nevertheless adopted some elements early in this year's report as a matter of best practice

Concluding remarks

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

Introduction
This report has been prepared on behalf of the Board by the Remuneration Committee, in accordance with the requirements of the Companies Act 2006, Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the principles of the UK Corporate Governance Code

As mentioned in the Chairman's Annual Statement, the Committee has chosen to adopt early certain aspects of the revised directors' remuneration reporting regulations (which came into force on 1 October 2013 and are effective for accounting periods ending on or after 30 September 2013) in this year's report The report is therefore divided into three sections, an Annual Statement by the Chairman of the Remuneration Committee, an Annual Report on Remuneration, which sets out what has been paid and awarded or vested during the year, and Directors' Remuneration Policy, which sets out our future remuneration policy As the auditors are required to give an opinion on whether certain parts of the report have been prepared in accordance with the accounting regulations, the report is also divided into audited and unaudited information

Shareholders will be asked to approve the report, by way of a single advisory vote, at the AGM on 23 January 2014

Annual report on remuneration – unaudited information
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 seven times during the year and each meeting was attended by all Committee members

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 Group's digital strategy project and on European wide cash pooling The Committee is satisfied that Deloitte has adequate safeguards in place, including separate engagement teams led by separate engagement partners, to ensure that its independence is not impaired Glenn Leech, who was Group Human Resources Director until 5 August 2013, also materially assisted the Committee in carrying out its duties, except in relation to his own remuneration

Corporate governance

Remuneration report continued

Annual report on remuneration – audited information
Directors' remuneration
The remuneration of the directors for the financial year ended 31 August 2013 was as follows

	Salary/Fees £'000	Annual Bonus £'000	Economic Profit Plan £'000	Pension Supplement and Benefits £'000	**Aggregate Total Reward £'000**	Year to 31 August 2012 £'000
Executive						
Jonathan Bunting	263	130	60	363	**816**	443
Mark Cashmore	370	174	85	82	**711**	669
Nick Gresham	258	129	59	57	**503**	432
Non-executive						
Dennis Millard (Chairman)	110	–	–	–	**110**	110
Andrew Brent	35	–	–	–	**35**	35
Anthony Cann	40	–	–	–	**40**	40
John Worby	40	–	–	–	**40**	40
Total	1,116	433	204	502	**2,255**	1,769

(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 £194,562 of which £64 854 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 2013
(c) Mark Cashmore earned an annual bonus of £261,534 of which £87 178 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 2013
(d) Nick Gresham earned an annual bonus of £192,761 of which £64 254 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 2013
(e) Jonathan Bunting will receive an Economic Profit Plan payout of £120 542 of which £60 271 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 2013
(f) Mark Cashmore will receive an Economic Profit Plan payout of £169 294, of which £84,647 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 2013
(g) Nick Gresham will receive an Economic Profit Plan payout of £117,872 of which £58 936 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 2013
(h) Jonathan Bunting's benefits include £314,930 in respect of relocation expenses incurred following his appointment as Managing Director of Smiths News on 1 May 2012 (see below)
(i) All of the directors served throughout the year

Single total figure of remuneration
The following table sets out the single total figure of remuneration for each of the directors for the financial year ended 31 August 2013, as prescribed by the revised directors' remuneration reporting regulations

			Annual Bonus		Economic Profit Plan		LTIP		
	Salary/Fees £'000	Benefits £'000	Cash £'000	Deferred shares £'000	Cash £'000	Deferred shares £'000	Shares £'000	Pension £'000	**Total £'000**
Executive									
Jonathan Bunting	263	337	130	65	60	60	187	58	**1,160**
Mark Cashmore	370	25	174	87	85	85	400	88	**1,314**
Nick Gresham	258	14	129	64	59	59	651	57	**1,291**
Non-executive									
Dennis Millard (Chairman)	110	–	–	–	–	–	–	–	**110**
Andrew Brent	35	–	–	–	–	–	–	–	**35**
Anthony Cann	40	–	–	–	–	–	–	–	**40**
John Worby	40	–	–	–	–	–	–	–	**40**
Total	1,116	376	433	216	204	204	1,238	203	**3,990**

(a) LTIP shares are in respect of the LTIP awards granted on 11 August 2011, which vested on 16 October 2013 and have been valued at 210p being the market price on the date of vesting Jonathan Bunting's award is in respect of 88 832 shares Mark Cashmore's award is in respect of 190,650 shares and Nick Gresham's award is in respect of 310,146 shares and comprises a normal award of 35% of base salary and an exceptional award of 78% of base salary in respect of incentives foregone from his previous employer
(b) Pension includes total pension supplement whether taken as an addition to basic pay or pension contribution and Company pension contribution

Directors' relocation expenses

Following his appointment as Managing Director, Smiths News on 1 May 2012, in accordance with the Company's relocation policy and to enable him to devote more time to the business, the Company has paid total relocation expenses for Jonathan Bunting amounting to £184,266 The estimated gross value is £332,577, of which £17,647 was incurred in the prior year and included in his 2011/12 remuneration

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 2013 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 2013

Directors' pension contributions during the year were as follows

	Employee contribution		Employer contribution	
	% of salary	£ 000	% of salary	£ 000
Jonathan Bunting	5	13	12	32
Mark Cashmore	5	18	8	31
Nick Gresham	5	12	5	12

(a) In addition to a matching pension contribution of up to 5% of salary, 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 from 1 September 2012 to 31 December 2012 and 15% of salary from 1 January 2013 to 31 August 2013 Of the total salary supplement 7% of salary was taken as an additional pension contribution and is included in the Employer contribution in the above table and 10% of salary 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 from 1 September 2012 to 31 December 2012 and 15% of salary from 1 January 2013 to 31 August 2013 Of the total salary supplement 3% of salary was taken as an additional pension contribution and is included in the Employer contribution in the above table and 15% of salary 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 from 1 September 2012 to 31 December 2012 and 15% of salary from 1 January 2013 to 31 August 2013, 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

Corporate 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 2012	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 2013**	Share price at date of grant (pence)	Exercise period
Jonathan Bunting							
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
Annual Bonus Plan	15 11 12	–	36,348	–	**36,348**	152 92	15 11 14-15 11 15
Economic Profit Plan	15 11 12	–	27,730	–	**27,730**	152 92	15 11 14-15 11 15
Total		163,673	64,078	86,240	**141,511**		
Mark Cashmore							
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
Annual Bonus Plan	15 11 12	–	59,686	–	**59,686**	152 92	15 11 14-15 11 15
Economic Profit Plan	15 11 12	–	48,187	–	**48,187**	152 92	15 11 14-15 11 15
Total		315,595	107,873	178,791	**244,677**		
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
Annual Bonus Plan	15 11 12	–	34,530	–	**34,530**	152 92	15 11 14-15 11 15
Economic Profit Plan	15 11 12	–	19,360	–	**19,360**	152 92	15 11 14-15 11 15
Total		52,561	53,890	–	**106,451**		

(a) Full details of the Annual Bonus Plan Economic Profit Plan and Deferred Bonus Plan are set out on pages 52 and 53
(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, ended on 26 October 2012
(e) Jonathan Bunting exercised the awards granted to him on 11 August 2011 on 18 April 2013 The market value of the shares on the date of exercise was £157,819 (183p per ordinary share)
(f) Mark Cashmore exercised the awards granted to him on 11 August 2011 on 23 April 2013 The market value of the shares on the date of exercise was £320,930 (179 50p per ordinary share)
(g) The total gains made by all directors on the exercise of deferred share awards during the year was £478,749
(h) No awards have lapsed during the year ended 31 August 2013
(i) No awards have been granted to or exercised by directors between 1 September 2013 and 16 October 2013

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 2012	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 2013**	Share price at date of grant (pence)	Exercise period
Jonathan Bunting							
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
2012	15 11 12	–	81,742	–	**81,742**	152 92	Oct 2015–15 11 22
Total		234,714	81,742	65,116	**251,340**		
Mark Cashmore							
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
2012	15 11 12	–	107,736	–	**107,736**	152 92	Oct 2015–15 11 22
Total		512,826	107,736	148,837	**471,725**		
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
2012	15 11 12	–	77,655	–	**77,655**	152 92	Oct 2015–15 11 22
Total		397,486	77,655		**475,141**		

(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 Earnings per Share ('EPS') performance targets as set out on page 54 are fully met
(b) The maximum aggregate EPS performance target applicable to awards granted on 26 November 2009 was met and as such, these awards vested and became exercisable in full on 16 October 2012
(c) The maximum aggregate EPS performance target applicable to awards granted on 11 August 2011 has been met and as such, these awards vested and became exercisable in full on 16 October 2013
(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 foregone from his previous employer
(f) Jonathan Bunting exercised the award granted to him on 26 November 2009 on 18 April 2013 The market value of the shares on the date of exercise was £119,162 (183p per ordinary share)
(g) Mark Cashmore exercised the award granted to him on 26 November 2009 on 23 April 2013 The market value of the shares on the date of exercise was £267,162 (179 50p per ordinary share)
(h) The total gains made by all directors on the exercise of LTIP awards during the year was £386,324
(i) No awards have lapsed during the year ended 31 August 2013
(j) No awards have been granted to or exercised by directors between 1 September 2013 and 16 October 2013

Corporate 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 2012	Number of shares subject to options exercised during the year	**Number of shares subject to options at 31 August 2013**	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	01 06 11	11,183	–	**11,183**	80 70	01 08 14–31 01 15
Total		196,067	184,884	**11,183**		
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		243,804	239,224	**4,580**		
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 30 August 2013 was 187 75p (31 August 2012 116p)
(b) The high and low middle market prices of an ordinary share during the year were 192 25p and 114p 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 55 has been met and as such these options became exercisable in full on 3 November 2007 and 2 November 2008 respectively
(d) Jonathan Bunting exercised the executive share options granted to him on 3 November 2004 and 2 November 2005 on 19 April 2013 The market price of the shares on the date of exercise was 182 02p and the gain was £178 311
(e) Mark Cashmore exercised the executive share options granted to him on 3 November 2004 and 2 November 2005 on 16 October 2012 The market price of the shares on the date of exercise was 136 15p and the gain was £116 791
(f) Mark Cashmore exercised the Sharesave options granted to him on 24 June 2009 and 2 June 2010 on 17 January 2013 and 8 August 2013 respectively The market price of the shares on 17 January 2013 was 163 75p and the gain was £1 953 The market price of the shares on 8 August 2013 was 180p and the gain was £3,010
(g) The total gains made by all directors on the exercise of share options was £300 065
(h) No share options have been granted to directors during the year ended 31 August 2013
(i) No share options have lapsed during the year ended 31 August 2013
(j) No share options have been granted to or exercised by directors between 1 September 2013 and 16 October 2013

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 2013	31 August 2012
Andrew Brent	**10,101**	10,101
Jonathan Bunting	–	180,174
Anthony Cann	**30,000**	30,000
Mark Cashmore	**271,516**	270,771
Nick Gresham	–	–
Dennis Millard	**85,000**	85,000
John Worby	**12,000**	12,000

Jonathan Bunting was given permission by the Remuneration Committee to sell his holding of 180,174 shares in order to part-fund his relocation on the understanding that he would build up a holding of 100% of salary as soon as possible and a holding of 150% of salary by June 2018

Nick Gresham, who joined the Group on 1 August 2010, will acquire a significant holding of shares on the exercise of the LTIP award granted to him on 11 August 2011 This award, which vested on 16 October 2013, is in respect of 310,146 shares (164,377 shares net of PAYE deductions)

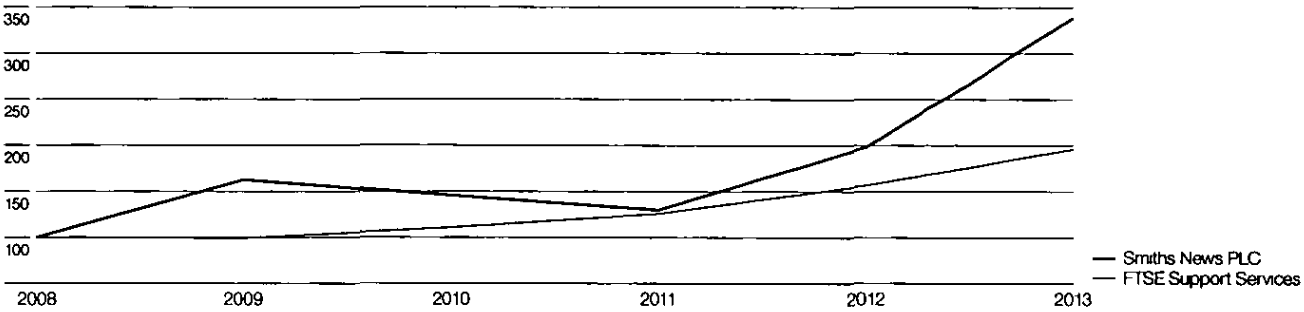
There has been no change in the directors' interests shown above between 1 September 2013 and 16 October 2013

Total shareholder return performance graph

The following graph shows the Total Shareholder Return ('TSR') performance of the Company since 31 August 2008, 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



Shareholder voting at the AGM

At the AGM held on 24 January 2013, the resolution to approve the Remuneration Report was passed on a poll The votes cast were as follows

Votes For (inc discretionary)		Votes Against		Votes Total	Votes Withheld
Number	%	Number	%	Number	Number
117,824,479	95 90	5,043,079	4 10	122,867,558	453,979

Directors' Remuneration Policy – unaudited information

The Company's remuneration policy is designed to support the delivery of the Group's strategy by ensuring that a strong link between performance and reward is maintained

The aims of the policy are to
- encourage a performance-based culture, by ensuring that a significant proportion of total remuneration is variable and aligned to delivery of the Group's key strategic objectives,
- attract and retain high calibre executive directors and senior managers with the necessary skills to deliver the Group's strategy,
- align the interests of executive directors and senior managers with those of shareholders by incentivising management to deliver the Group's strategy and thereby deliver growing and sustainable shareholder returns, and
- ensure that remuneration arrangements support the sustainable delivery of performance and do not inadvertently encourage undue risk taking

In forming this policy the Committee has adopted the principles set out in Section D of the UK Corporate Governance Code

The policy is implemented by
- paying base salaries that take into account a range of factors, including the size and scope of the individual's responsibilities and prevailing market rates for similar positions in companies of similar size and complexity,
- enabling executives to enhance earnings by meeting and exceeding challenging short-term and longer-term targets, which support Company strategy and shareholder interests,
- requiring executives to build up and maintain significant shareholdings in the Company, and
- including malus and clawback provisions, as appropriate, in the Annual Bonus Plan, Economic Profit Plan ('EPP') and LTIP

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 for each of the executive directors was 200% of base salary 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 This will remain the same for FY2013/14

As explained in the Annual Statement at the beginning of this report, as part of the review of executive directors' remuneration carried out during the year, it has been decided to increase the proportion of the annual bonus paid in the form of deferred shares from 33% to 50%

The Annual Bonus Plan, EPP and LTIP are described in more detail on pages 52 to 54

Corporate governance

Remuneration report continued

Fixed and variable remuneration FY2013/14
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 2014

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, changing size and complexity, 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 comprehensive review of executive remuneration arrangements carried out during the year, a number of changes were implemented They included a phased increase in salaries over two years balanced by a significant reduction in pension benefits (taken over one year) The context and rationale for these changes is set out in the Annual Statement at the beginning of this report The following salaries are applicable from 1 January 2013 and from 1 January 2014,

Executive director	1 September 2012	Effective from 1 January 2013	Effective from 1 January 2014
Mark Cashmore	£329,500	£390,000 (+18 4%)	£420,000 (+7 7%)
Nick Gresham	£237,500	£267,500 (+12 6%)	£280,000 (+4 7%)
Jonathan Bunting	£250,000	£270,000 (+8 0%)	£280,000 (+3 7%)

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 Current policy is to pay non-executive directors a basic fee of £35,000 p a plus £5,000 p a for chairing a Board committee 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
For the year under review, the level of bonus paid is dependent on the achievement of a Group underlying profit before tax target (70%) and on personal performance (30%), set at the beginning of the financial 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 takes account of the performance against budget of Smiths News

Each executive director had the opportunity to receive an annual bonus up to a maximum of 100% of base salary (42 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 Group profit before tax of £51 6m and personal performance, Mark Cashmore's annual bonus for the year under review is £261,534, representing 67 1% of salary, Nick Gresham's annual bonus for the year under review is £192,761, representing 72 1% of salary and Jonathan Bunting's annual bonus for the year under review is £194,562, representing 72 1% of salary Of these bonuses, two thirds will be paid in cash in November 2013 and one third will be paid in the form of shares

For FY2013/14, for Mark Cashmore and Nick Gresham, the level of bonus paid is dependent on the achievement of a Group underlying profit before tax target (70%), strategic targets (15%) and personal performance (15%) For Jonathan Bunting, the level of bonus paid is dependent on the achievement of a Group underlying profit before tax target (35%), a Smiths News profit before tax target (35%), strategic targets (15%) and personal performance (15%) The maximum annual bonus opportunity will remain the same, however, the proportion of bonus paid in the form of deferred shares will increase from 33% to 50%

In the event of a material misstatement of the financial results, the Committee reserves the right to take such action as it reasonably considers appropriate to put the Company and participants in substantially the same overall financial position as they would have been had the misstatement not occurred

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 The Committee may at any time amend or terminate the plan and, in the event of a material misstatement of the financial results, may within a period of one year require participants to reimburse to the Company part or all of any payments received

For the year under review, each of the executive directors was able to receive an allocation of up to 50% 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 2013 resulted in a contribution to the Pool of £932,880, bringing the total value of the Pool to £1,953,102 In respect of the year ended 31 August 2013, of this Pool, Mark Cashmore will receive £169,294, representing 43 4% of base salary, Nick Gresham will receive £117,872, representing 44 1% of base salary and Jonathan Bunting will receive £120,542, representing 44 6% of base salary Of these payouts, half will be paid in cash in November 2013 and half will be paid in the form of shares under the terms of the Deferred Bonus Plan

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 The Committee may at any time amend the plan

Following the review of executive remuneration arrangements carried out during the year, for awards granted from FY2013/14, it is proposed to provide for dividend equivalents further to strengthen alignment with shareholders' interests For the avoidance of doubt, the operation of dividend equivalents will be in line with best practice Hence an amount equal to dividends paid during the holding period will be paid retrospectively at the end of the holding period, either in cash or in shares, but only on the number of shares that ultimately vest No dividends will be accrued on any part of an award that lapses

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 £87,178, £64,254 and £64,854 respectively in connection with the Annual Bonus Plan and £84,647, £58,936 and £60,271 respectively in connection with the Economic Profit Plan These awards will be granted in November 2013

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 Current policy is to grant awards up to a maximum of 50% of base salary

The Committee may at any time amend (subject to the approval of shareholders if the proposed amendments are to the advantage of existing or new participants) or terminate the plan In the event of a material misstatement of the financial results or the gross misconduct of an award holder, the Committee may prior to the issue or transfer of shares reduce, cancel or impose further conditions on an award, or after the issue or transfer of shares may take such action as it considers appropriate to put the Company and the awardholder in substantially the same overall financial position as they would have been in if the circumstances had occurred before the issue or transfer of shares

Following the review of executive remuneration arrangements carried out during the year, for awards granted from FY2013/14, it is proposed, subject to shareholder approval at the AGM in January 2014, to provide for dividend equivalents further to strengthen alignment with shareholders' interests The operation of dividend equivalents will be in line with best practice, hence an amount equal to dividends paid during the performance period will be paid retrospectively at the end of the performance period, either in cash or in shares, but only on the number of shares that ultimately vest No dividends will be accrued on any part of an award that lapses

Corporate governance

Remuneration report continued

In the year under review, each executive director received an award to the value of 50% of base salary This will remain the same for awards to be granted in November 2013

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 EPS is the most appropriate measure of the Company's performance

For awards granted on 26 November 2009, 11 August 2011, 17 November 2011 and 15 November 2012, the performance condition is based on the Company's aggregate EPS over the three years ended 31 August 2012, three years ended 31 August 2013, three years ending 31 August 2014 and three years ending 31 August 2015 respectively (the 'Performance Period'), as set out in the following table

Date of Grant	Aggregate EPS performance over the Performance Period	Proportion exercisable
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[1]	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%
15 November 2012	Below 64 5p	Zero
	64 5p	20%
	Pro-rating applies between these points	Between 20% and 100%
	71 5p or more	100%

1 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 2012 is 50p, and resulted in 100% of the awards granted on 26 November 2009 being exercisable from 16 October 2012

Aggregate EPS over the three years ended 31 August 2013 is 57 8p, and has resulted in 100% of the awards granted on 11 August 2011 being exercisable from 16 October 2013

Smith 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 became exercisable from 26 November 2012 Options granted in June 2011 are only exercisable if the Company's underlying profit before tax for the year ended 31 August 2013 exceeds £35m As the Company's underlying profit before tax for the year ended 31 August 2013 is £53m, these options will be exercisable from 15 June 2014 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 and options granted in November 2012 will only be exercisable if the Company's underlying profit before tax for the year ending 31 August 2015 exceeds £47 5m The Committee will conduct its annual review of the performance condition prior to the grant of options in November 2013 The executive directors did not participate in this Scheme in the financial year ended 31 August 2013 and will not participate in the current financial year, and

b) an HM Revenue and 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 were introduced in January 2009 and, following the review of remuneration arrangements carried out during the year, now require executive directors to build up over a period of five years and then maintain a target holding of ordinary shares of 150% of salary (previously 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 100% of salary (previously 75% of salary) and until that level is reached, except for payment of tax arising on the exercise of awards and other exceptional circumstances, they will not be allowed to sell shares beyond 25% of shares vesting under share incentive arrangements

In exceptional circumstances, executive directors may seek permission from the Remuneration Committee temporarily to go below their target holding During the year Jonathan Bunting was given permission by the Remuneration Committee to sell his holding of 180,174 shares in order to part-fund his relocation on the understanding that he would build up a holding of 100% of salary as soon as possible and a holding of 150% of salary by June 2018

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	5 September 2013	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 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

As part of the review of executive directors' remuneration carried out during the year, the liquidated damages provision on a change of control in the service contract of Mark Cashmore has been removed

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

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, an independent professional trustee company based in Jersey

The number of shares held in the Smiths News Employee Benefit Trust at 31 August 2013 was 1,070,854 The accounting treatment is shown in the Group Statement of Changes in Equity on page 64

Corporate governance

Remuneration report continued

Dilution limits
Share awards and executive share options are satisfied using market purchase shares The Company's share plans comply with recommended guidelines on dilution limits and the Company has always operated within these limits

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

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 On 1 January 2013, Mark Cashmore's salary supplement was reduced from 25% of salary to 15% of salary and Jonathan Bunting's and Nick Gresham's salary supplement was reduced from 20% of salary to 15% 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

Consultation with shareholders and investor representative bodies
It is the Company's policy to consult with major shareholders and investor representative bodies, and to carefully consider any feedback received, prior to making significant changes to executive remuneration arrangements

In accordance with the revised directors' remuneration reporting regulations, the Company's remuneration policy, to be set out in the prescribed format in next year's Annual Report, will be the subject of a binding vote at the AGM to be held in January 2015

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

Anthony Cann
Chairman of the Remuneration Committee
16 October 2013

Other statutory disclosures

Directors' Report
This Annual Report includes the Directors' Report and the audited accounts of Smiths News PLC (the 'Company') and its subsidiaries (the 'Group') for the year ended 31 August 2013 The information required to be disclosed in the Directors' Report is provided in the following sections of the Annual Report, which are incorporated into the Directors' Report by reference
- What is our strategy for growth on pages 2 to 7,
- How have we performed and how have the divisions performed on pages 8 to 25,
- What is our approach to corporate responsibility on pages 26 to 31,
- Corporate Governance report on pages 36 to 39,
- Audit Committee Report on pages 40 and 41,
- Nominations Committee Report on page 42,
- Remuneration Report on pages 43 to 56,
- this section, Other Statutory Disclosures, and
- Directors' Responsibilities Statement on page 60

By their nature, the statements concerning the risks and uncertainties facing the Group involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report and the Company undertakes no obligation to update these forward-looking statements Nothing in this Annual Report should be construed as a profit forecast

The Directors' Report 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,
- Dawson Media Direct, a leading supplier of newspapers, magazines and digital and audio visual content to airlines,
- 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, and
- The Consortium, a leading independent distributor of consumable products to the UK education and care markets, serving around 30,000 customers

The principal companies affecting the profits or net assets of the Group in the year are listed in Note 33 to the Accounts

Business review
A review of the business of the Group during the financial year ended 31 August 2013, 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
- What is our strategy for growth on pages 2 to 7,
- How have we performed and how have the divisions performed on pages 8 to 25,
- What is our approach to corporate responsibility on pages 26 to 31

Transactions
On 11 September 2012, the Company concluded an arrangement with Will Jones, Steven Potter, Robert Johnson, Lee Valentine and Timothy Williams (the 'Minority Shareholders') for the establishment of the online trading platform in printed books known as Wordery Wordery is operated through a corporate vehicle, Magpie Investments Limited, in which the Company's subsidiary Bertram Trading Limited owns 51% of the equity share capital and the Minority Shareholders together own 49% of the equity share capital An exit mechanism has been agreed with the Minority Shareholders, whereby their respective interests are to be acquired at the discretion of Bertram Trading Limited, determined by reference to net sales and EBITDA at the relevant time

On 17 January 2013, the Company acquired Erasmus Antiquariaat en Boekhandel B V ('Erasmus') from Tschenett Beheer B V for a net consideration of €1 5m satisfied in cash via its subsidiary Dawson Books Limited Erasmus, based in the Netherlands, is a leading supplier of high quality books and journals into both academic libraries and Government Institutions mainly across Northern Europe

On 30 April 2013, the Company's subsidiary, Dawson Intermediate Holdings Limited, sold Dawson Marketing Services Limited and its trading subsidiary Marketlink Marketing Communications Limited for a consideration of £0 2m

On 20 May 2013, the Company acquired certain European and African academic library services contracts from Blackwell UK Limited for a net consideration of up to £2 0m satisfied in cash via its subsidiary Dawson Books Limited

Further details of these transactions can be found in Notes 11, 12 and 13 to the Accounts

Post balance sheet event
On 1 September 2013, the Company acquired the business and assets of Martin Lavell Limited from Martin Lavell Limited for a net consideration of £0 25m satisfied in cash via its subsidiary Martin Lavell Limited (formerly Smiths News 2010 Limited) Martin Lavell is a News and Magazines business to business operator in the London area

Corporate governance

Other statutory disclosures continued

Profit and dividends
The profit for the financial year, after taxation, was £31 1m (FY2012 £27 5m)

The directors recommend the payment of a final dividend for the year of 6 3p per ordinary share (FY2012 5 8p) on 7 February 2014 to members on the Register at the close of business on 10 January 2014

This final dividend, together with the interim dividend of 3 0p per ordinary share paid on 12 July 2013, makes a total dividend of 9 3p per ordinary share for the year ended 31 August 2013 (FY2012 8 6p)

Share capital
The Company's issued share capital as at 31 August 2013 comprised 184,290,416 ordinary shares of 5p each nominal value Details of movements in the issued share capital during the year can be found in Note 28 to the Accounts These shares, which are all fully paid, can be held in certificated or uncertificated form and are listed on the London Stock Exchange

The rights and obligations attaching to the Company's ordinary shares, in addition to those conferred on their holders by law, are set out in the Company's Articles of Association (the 'Articles'), a copy of which can be obtained from the Company's website www smithsnews co uk Changes to the Company's Articles must be approved by special resolution of the Company

The holders of ordinary shares are entitled to receive the Company's report and accounts, to attend and speak at general meetings of the Company, to appoint one or more proxies (or if they are corporations to appoint corporate representatives) and exercise voting rights, to receive a dividend subject to the deduction of any sums due from the holder of ordinary shares to the Company on account of calls or otherwise, and on a liquidation may share in the assets of the Company There are no restrictions on the transfer of ordinary shares in the Company other than certain restrictions imposed by prevailing legislation and regulations (such as insider trading laws and market requirements in respect of close periods) Nor is the Company aware of any agreements between shareholders that may result in restrictions on the transfer of ordinary shares or that may result in restrictions on voting rights

The Trustee of the Smiths News Employee Benefit Trust holds ordinary shares of the Company on behalf of the beneficiaries of the Trust, who are the employees and former employees of the Group If any offer is made to the holders of ordinary shares to acquire their shares, the Trustee will not be obliged to accept or reject the offer in respect of any shares which are at that time subject to subsisting options, but will have regard to the interests of the option holders and can consult them to obtain their views on the offer, and subject to the foregoing, the Trustee will take the action with respect to the offer it thinks fair The Trustee waives its right to vote and to dividends on the shares that it holds

Purchase of own shares
At the AGM held on 24 January 2013, authority was given for the Company to purchase, in the market, up to 18,381,937 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 AGM in 2014 to renew the authority for a further year

Issue of new ordinary shares
During the financial year ended 31 August 2013, 763,101 ordinary shares in the Company were issued under the Sharesave Scheme at prices between 78 6p and 98 4p 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

Interests in voting rights
As at 31 August 2013, the Company had been notified, pursuant to the Financial Conduct Authority's Disclosure and Transparency Rule 5, of the following notifiable interests in its issued share capital

Holder	Number	% of Voting Rights	Nature of Holding
Silchester International Investors LLP	18,952,891	10 30	Indirect Interest
Prudential plc	18,080,038	9 85	Direct Interest
Henderson Global Investors	15,522,275	8 46	Indirect Interest
Ameriprise Financial, Inc	10,012,566	5 44	Indirect Interest
Aberforth Partners LLP	8,881,863	4 83	Indirect Interest
Legal & General Group Plc	7,331,327	3 99	Direct Interest

There have been no changes in the period 1 September 2013 to 16 October 2013

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 be capable of termination at the election of the counterparty

The Company does not have agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's share schemes may cause options and awards granted to employees under such schemes to vest on a takeover

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

The names of the directors as at the date of this report, together with biographical details, are set out on pages 32 and 33 All the directors served throughout the year

The Company's 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 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 43 to 56

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 What is our approach to corporate responsibility on pages 26 to 31

Charitable and political donations
Charitable donations during the year ended 31 August 2013 totalled £10,430 (FY2012 £14,118) 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 27 to 29

It is the Group's policy not to make political donations and no political donations or EU political expenditure were made in the year (FY2012 £nil)

Financial instruments
Information on the Group's financial risk management objectives and policies and on the exposure of the Group to relevant risks in respect of financial instruments is set out in Note 20 to the Accounts

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 26 days (FY2012 31 days) based on average daily amounts invoiced by suppliers during the year The Company is a holding company and does not have any trade creditors

Disclosure of information to auditor
Each director confirms that, so far as he is aware, there is no relevant audit information (as defined in section 418 of the Companies Act 2006) 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

Auditor
Resolutions to reappoint Deloitte LLP as auditor of the Company and to authorise the Audit Committee to determine their remuneration will be proposed at the Annual General Meeting

Annual General Meeting
The AGM of the Company will be held at Rowan House, Cherry Orchard North, Kembrey Park, Swindon, Wiltshire SN2 8UH on 23 January 2014 at 11 30am The Notice of Annual General Meeting is given, together with explanatory notes on the six items of special business to be considered at the meeting, in the booklet which accompanies this report

Approved by the Board and signed on its behalf by

Stuart Marriner
Company Secretary & General Counsel
16 October 2013

Corporate governance

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 judgements 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 2013

Nick Gresham
Chief Financial Officer
16 October 2013

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 2013 which comprise 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 34 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit 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 2013 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 matters where the Companies Act 2006 requires us 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,
- 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 2013 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 2013

Financial statements

Group income statement

for the year ended 31 August 2013

£m	Note	2013 Underlying[1]	2013 Non-recurring and other items	2013 Total	2012 Underlying[1]	2012 Non-recurring and other items	2012 Total
Continuing operations							
Revenue	2	**1,810 8**	**–**	**1,810.8**	1,803 9	–	1,803 9
Operating profit	2,3	**56.5**	**(10 9)**	**45.6**	51 2	(10 9)	40 3
Investment revenues	7	**1.8**	**–**	**1.8**	1 2	–	1 2
Finance costs	7	**(5.3)**	**(0.2)**	**(5.5)**	(4 9)	–	(4 9)
Profit before tax		**53 0**	**(11.1)**	**41.9**	47 5	(10 9)	36 6
Income tax expense	8	**(12.1)**	**1.3**	**(10.8)**	(11 4)	2 3	(9 1)
Profit for the year		**40.9**	**(9.8)**	**31 1**	36 1	(8 6)	27 5
Earnings per share							
Basic	10	**22 4p**		**17 1p**	19 9p		15 2p
Diluted	10	**21 1p**		**16 0p**	19 3p		14 7p
Equity dividends per share	9			**9 3p**			8 6p

1 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 2013

£m	Note	2013	2012 Restated[1]
Gain/(Loss) on cash flow hedges	29	**1 7**	(0 2)
Actuarial gain on defined benefit pension scheme	6	**4.5**	5 5
Impact of IFRIC 14 on defined benefit pension scheme	6	**0.3**	(10 7)
Tax relating to components of other comprehensive income	8	**(1.9)**	0 7
Other comprehensive income and expense for the year		**4 6**	(4 7)
Profit for the year		**31 1**	27 5
Total comprehensive income and expense for the year		**35 7**	22 8

1 Restatement in respect of retirement benefit obligations, see Note 34

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 2013

£m	Note	2013	2012 Restated[1]	2011 Restated[1]
Non-current assets				
Intangible assets	11a	**68.2**	67 1	36 9
Property, plant and equipment	14	**26 6**	24 5	18 7
Interest in jointly controlled entities and associates	15	**4.1**	3 9	3 9
Derivative financial instruments	20	**0.4**	–	–
Investments		**–**	–	0 1
Retirement benefit assets	6	**0 2**	–	–
Deferred tax assets	23	**8.1**	10 6	12 1
		107 6	106 1	71 7
Current assets				
Inventories	16	**44 2**	44 6	34 7
Trade and other receivables	17	**127 1**	120 3	109 7
Cash and cash equivalents	19	**10 1**	5 1	4 2
Assets held for sale		**–**	–	0 8
		181 4	170 0	149 4
Total assets		**289 0**	276 1	221 1
Current liabilities				
Trade and other payables	18	**(188.7)**	(182 0)	(180 1)
Current tax liabilities		**(8.1)**	(8 1)	(7 6)
Bank loans and other borrowings	19	**(72.8)**	(66 1)	(26 0)
Obligations under finance leases	21	**(1 0)**	(1 4)	(1 1)
Derivative financial instruments	20	**(0 8)**	(1 0)	(0 6)
Retirement benefit obligations	6	**(4.1)**	(5 8)	(5 8)
Provisions	24	**(7.5)**	(7 8)	(5 4)
		(283.0)	(272 2)	(226 6)
Non-current liabilities				
Retirement benefit obligations	6	**(19.2)**	(30 2)	(30 5)
Bank loans and other borrowings	19	**(34.0)**	(37 0)	(39 2)
Obligations under finance leases	21	**(0.8)**	(1 1)	(1 2)
Other non-current liabilities	22	**(1 6)**	(2 5)	(0 5)
Deferred tax liabilities	23	**(4 5)**	(4 7)	(4 1)
Derivative financial instruments	20	**–**	(1 3)	(1 5)
Non-current provisions	24	**(2 8)**	(4 7)	(4 9)
		(62 9)	(81 5)	(81 9)
Total liabilities		**(345 9)**	(353 7)	(308 5)
Total net liabilities		**(56 9)**	(77 6)	(87 4)
Equity				
Called up share capital	28(a)	**9 2**	9 2	9 2
Share premium account	28(c)	**1.2**	0 6	0 5
Other reserve	29(a)	**(280 1)**	(280 1)	(280 1)
ESOP reserve	29(b)	**(1 5)**	(1 7)	(2 6)
Hedging reserve	29(c)	**(0 6)**	(2 3)	(2 1)
Retained earnings	30	**214 9**	196 7	187 7
Total equity deficit		**(56 9)**	(77 6)	(87 4)

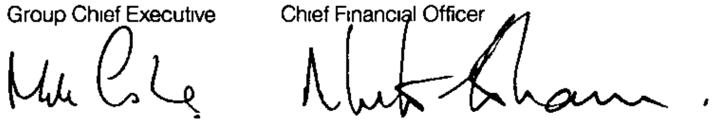
1 Restatement in respect of retirement benefit obligations see Note 34

The accounts were approved by the Board of Directors and authorised for issue on 16 October 2013 and were signed on its behalf by

Registered number – 05195191

Mark Cashmore
Group Chief Executive

Nick Gresham
Chief Financial Officer



Financial statements

Group statement of changes in equity

for the year ended 31 August 2013

£m	Share Capital	Share Premium Account	Other Reserve	ESOP Reserve	Hedging Reserve	Retained Earnings	Total
Balance at 31 August 2011 – reported	9 2	0 5	(280 1)	(2 6)	(2 1)	214 9	(60 2)
Prior year restatement[1]	–	–	–	–	–	(27 2)	(27 2)
Balance at 31 August 2011 – Restated[1]	9 2	0 5	(280 1)	(2 6)	(2 1)	187 7	(87 4)
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
Impact of IFRIC 14 on defined benefit pension scheme	–	–	–	–	–	(10 7)	(10 7)
Tax relating to components of other comprehensive income	–	–	–	–	–	0 7	0 7
Total comprehensive income for the year – Restated[1]	–	–	–	–	(0 2)	23 0	22 8
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 – Restated[1]	9 2	0 6	(280 1)	(1 7)	(2 3)	196 7	(77 6)
Profit for the period	–	–	–	–	–	31 1	31 1
Gain on cash flow hedges	–	–	–	–	1 7	–	1 7
Actuarial loss on defined benefit pension scheme	–	–	–	–	–	4 5	4 5
Impact of IFRIC 14 on defined benefit pension scheme	–	–	–	–	–	0 3	0 3
Tax relating to components of other comprehensive income	–	–	–	–	–	(1 9)	(1 9)
Total comprehensive income for the year	–	–	–	–	1 7	34 0	35 7
Issue of share capital	–	0 6	–	–	–	–	0 6
Dividends paid	–	–	–	–	–	(16 0)	(16 0)
Employee share schemes	–	–	–	0 2	–	(0 2)	–
Recognition of share-based payments	–	–	–	–	–	0 4	0 4
Balance at 31 August 2013	**9.2**	**1.2**	**(280 1)**	**(1.5)**	**(0 6)**	**214.9**	**(56.9)**

1 Restatement in respect of retirement benefit obligations see Note 34

Group cash flow statement
for the year ended 31 August 2013

£m	Note	**2013**	2012
Net cash inflow from operating activities	27	**37 9**	28 5
Investing activities			
Acquisitions	12	**(5.1)**	(40 1)
Sale of unlisted investment		**-**	1 0
Purchase of property, plant and equipment		**(5 0)**	(4 0)
Purchase of intangible assets		**(2.8)**	(2 3)
Proceeds on disposal of a property		**–**	0 8
Net cash used in investing activities		**(12.9)**	(44 6)
Financing activities			
Interest paid		**(4 0)**	(3 3)
Dividend paid		**(16 0)**	(14 9)
Repayments of obligations under finance leases		**(2 0)**	(1 6)
Proceeds on issue of shares		**0.7**	0 1
Purchase of shares for Employee Benefit Trust		**(2 3)**	(0 8)
Decrease in long-term borrowings		**(3 0)**	(2 2)
Increase in short-term borrowings		**6 7**	40 1
Net cash (used in)/from financing activities		**(19 9)**	17 4
Net increase in cash and cash equivalents		**5 1**	1 3
Effect of foreign exchange rate changes		**(0.1)**	(0 4)
		5 0	0 9
Opening net cash and cash equivalents		**5.1**	4 2
Closing net cash and cash equivalents	19	**10.1**	5 1
Analysis of net debt			
Cash and cash equivalents	19	**10 1**	5 1
Current borrowings	19	**(72.8)**	(66 1)
Non-current borrowings	19	**(34.0)**	(37 0)
Finance lease liabilities	21	**(1.8)**	(2 5)
Net debt		**(98.5)**	(100 5)

Financial statements

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 2013 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 103 to 106

The accounts were authorised for issue by the directors on 16 October 2013

(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 Certain figures in this document may not tally exactly due to rounding

The Group accounts have been prepared in accordance with 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 20, at the year end the Group had committed bank facilities in place of £142m, 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 7 years

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

1. Accounting policies continued

(b) Restatement of retirement benefit obligation

During the year the Group reconsidered its accounting for deficit contributions of pension schemes and has amended its accounting to recognise future agreed deficit contributions as an IFRIC 14 liability on the balance sheet Accordingly in the FY2013 financial statements, we have recognised the present value of the schedule of contributions as a liability of £20 3m and a resulting tax asset of £4 3m on our balance sheet at 31 August 2013 We have also restated our prior year financial statements recognising a liability of £34 0m and resulting deferred tax asset of £8 2m at 31 August 2012 and £36 3m liability and deferred tax asset of £9 1m as at 31 August 2011

There is no impact on earnings, cash flows (including tax payments) or covenants The impact of the restatement as at 31 August 2011 is shown in Note 34

(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 2013 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 cash flows 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 sales and cost of sales 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

Taxation judgements

The Group provides for known tax risks (both UK and overseas) based upon the best estimate of the economic outflow

Financial statements

Notes to the Accounts continued

1. Accounting policies continued

(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

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 or disposals 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

1. Accounting policies continued

(j) Jointly controlled entities and associates

The Group Accounts include the Group's share of the total recognised gains and losses in its joint 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

- 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 – 3 to 15 years
- Equipment – 5 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 or less

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities Equity instruments issued are recorded at the proceeds received, net of direct issue costs

Financial statements

Notes to the Accounts continued

1 Accounting policies continued

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

Derivative financial instruments are initially recognised at fair value on the date a derivative is entered into and are subsequently re-measured 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

1 Accounting policies continued

(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 three 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

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 £53 2m (FY2012 £40 3m) available on a reduction of future contributions is £nil (FY2012 £nil) The Group recognises an onerous liability for the future agreed deficit contributions, a liability of £20 3m (FY2012 £34 0m)

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 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

At the date of authorisation of these financial statements, the following Standards and Interpretations that are potentially relevant to the Group and which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU)

- Amendments to IAS 19 'Employee benefits'
- IFRS 9 'Financial Instruments Classification and measurement' – effective for accounting periods beginning on or after 1 January 2015
- IAS 12 'Income Taxes – Limited Scope Amendment'
- IFRS 10 'Consolidated Financial Statements'
- IFRS 11 'Joint Arrangements'
- IFRS 12 'Disclosure of Interest in Other Entities'
- IFRS 13 'Fair Value Measurement'
- IAS 27 (amended) 'Separate Financial Statements'
- IAS 28 (amended) 'Investments in Associates and Joint Ventures'
- IAS 1 (amended) 'Presentation of Items in Other Comprehensive Income'
- Annual improvements to IFRSs 2009–2011 Cycle
- IAS 32 (amended) 'Offsetting Financial Assets and Financial Liabilities'
- IFRS 7 (amended) 'Disclosures – Offsetting Financial Assets and Financial Liabilities'
- IFRS 10 (amended), IFRS 12 (amended) and IAS 27 (amended) – 'Investment Entities'
- Amendments to IAS 36 (May 2013) 'Recoverable Amount Disclosures for Non-Financial Assets'
- Amendments to IAS 39 'Novation of Derivatives and Continuation of Hedge Accounting'

Financial statements

Notes to the Accounts continued

1. Accounting policies continued
The directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group, except for the following IFRS 9 'Financial Instruments', which will introduce a number of changes in the presentation of financial instruments, IFRS 13 'Fair Value Measurement' which will impact the measurement of fair value of certain assets and liabilities, IAS 1 'Amendments to presentation of Other Comprehensive Income' which will impact the presentation of financial statements This will impact the presentation of various items within the Statement of Other Comprehensive Income by requiring the separation of items that will later be reclassified through the Consolidated Income Statement from those that will never pass through the Consolidated Income Statement

IAS 19 (as revised in June 2011) 'Employee Benefits' will be adopted by the Group for the financial year commencing 1 September 2013 The interest cost and expected return on defined-benefit pension scheme assets used in the previous version of IAS 19 are replaced with a 'net interest' amount, which is calculated by applying a discount rate to the net defined benefit liability or asset Furthermore, IAS 19 (revised) also introduces more extensive disclosures in the presentation of the defined benefit cost, including the separate disclosure of the scheme's administrative expenses

If IAS 19 (revised) had been applied to these financial statements, the profit for the year would have been approximately £2 5m lower Its adoption for the year to 31 August 2014 is expected to reduce the profit similarly by approximately £2 5m To aid comparison, in the 31 August 2014 Financial Statements, the 31 August 2013 comparatives will be restated as if IAS 19 (revised) had applied

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 45 distribution hubs
Book wholesaling (referred to as Bertrams and Dawson Books)	A leading UK distributor of physical and digital books to high street and on-line retailers, public libraries and academic institutions with a strong international presence, supplying 95 countries
Education and care (referred to as The Consortium)	A leading distributor of educational consumable products servicing 30,000 customers
Media (referred to as DMD)	A supplier of newspaper and magazines to airlines and an emerging player in in-flight entertainment

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

	Revenue		Operating profit	
£m	**2013**	2012	**2013**	2012
Newspaper and magazine wholesaling	**1,529 3**	1,570 7	**40 0**	39 0
Book wholesaling	**187 9**	174 3	**7.2**	6 8
Education and care	**63 8**	26 5	**7.4**	3 6
Media	**29 9**	32 4	**2.0**	1 8
Total Group – underlying	**1,810.8**	1,803 9	**56.5**	51 2
Non-recurring and other items			**(10.9)**	(10 9)
Group operating profit			**45 6**	40 3
Net finance expense			**(3 7)**	(3 7)
Profit before taxation			**41.9**	36 6

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

Information about major customers
Included in revenues arising from Newspaper and magazine wholesaling are revenues of approximately £164 5m (FY2012 £170 2m) which arose from sales to the Group's largest customer

2 Segmental analysis continued
Segment assets and liabilities

	Assets		Liabilities		Net assets	
£m	**2013**	2012 Restated	**2013**	2012 Restated	**2013**	2012 Restated
Newspaper and magazine wholesaling	**142.3**	136 5	**(266.5)**	(278 8)	**(124 2)**	(142 3)
Book wholesaling	**75 7**	69 0	**(54.6)**	(49 6)	**21 1**	19 4
Education and care	**55.0**	52 7	**(17.5)**	(16 6)	**37 5**	36 1
Media	**16.0**	17 9	**(7.3)**	(8 7)	**8 7**	9 2
Consolidated assets/(liabilities)	**289.0**	276 1	**(345.9)**	(353 7)	**(56 9)**	(77 6)

Segment depreciation, amortisation and non-current asset additions

	Depreciation		Amortisation		Additions to non current assets	
£m	**2013**	2012	**2013**	2012	**2013**	2012
Newspaper and magazine wholesaling	**(4 3)**	(4 2)	**(1.3)**	(1 5)	**6.7**	6 7
Book wholesaling	**(0.4)**	(0 5)	**(2.2)**	(1 8)	**5.6**	0 9
Education and care	**(0.5)**	(0 1)	**(1.2)**	(0 4)	**1 6**	31 9
Media	**(0 1)**	(0 1)	**(0.3)**	(0 3)	**–**	0 3
Consolidated total	**(5 3)**	(4 9)	**(5.0)**	(4 0)	**13 9**	39 8

Geographical analysis

	Revenue by destination		Non-current assets by location of operation	
£m	**2013**	2012	**2013**	2012[1] Restated
United Kingdom	**1,734.4**	1,741 4	**107 4**	105 9
Europe	**47.9**	41 0	**0 2**	0 2
Rest of World	**28.5**	21 5	**–**	–
Consolidated total	**1,810.8**	1,803 9	**107 6**	106 1

1 Restatement in respect of retirement benefit obligations, see Note 34

3 Operating profit
The Group's results are analysed as follows

		2013			2012		
£m	Note	**Underlying**	**Non-recurring**	**Total**	Underlying	Non-recurring	Total
Revenue		**1,810 8**	**–**	**1,810 8**	1,803 9	–	1,803 9
Cost of inventories recognised as an expense		**(1,565.7)**	**–**	**(1,565.7)**	(1,570 5)	–	(1,570 5)
Write down of inventories recognised as an expense		**–**	**–**	**–**	(0 1)	–	(0 1)
Other cost of sales		**(42.8)**	**–**	**(42.8)**	(43 1)	–	(43 1)
Cost of sales		**(1,608.5)**	**–**	**(1,608.5)**	(1,613 7)	–	(1,613 7)
Gross profit		**202.3**	**–**	**202.3**	190 2	–	190 2
Distribution costs		**(88.6)**	**(2 9)**	**(91.5)**	(89 5)	(2 0)	(91 5)
Administrative expenses		**(53.3)**	**(5 2)**	**(58.5)**	(46 5)	(6 9)	(53 4)
Share-based payment expense	31	**(1 9)**	**–**	**(1.9)**	(1 4)	(0 4)	(1 8)
Amortisation of intangibles	11	**(2 2)**	**(2 8)**	**(5.0)**	(1 9)	(2 1)	(4 0)
Profit on disposal of operations		**–**	**–**	**–**	–	0 5	0 5
Share of profits from jointly controlled entities and associates	15	**0 2**	**–**	**0 2**	0 3	–	0 3
Administrative expenses		**(57.2)**	**(8.0)**	**(65.2)**	(49 5)	(8 9)	(58 4)
Operating profit		**56 5**	**(10.9)**	**45.6**	51 2	(10 9)	40 3

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Notes to the Accounts continued

3. Operating profit continued

The operating profit is stated after charging/(crediting)

£m	Note	2013	2012
Depreciation on property, plant and equipment	14	**5.3**	4 9
Amortisation of intangible assets	11	**5 0**	4 0
Operating lease charges			
– Occupied land and buildings		**8.9**	9 5
– Vacant land and buildings		**0 9**	0 3
– Equipment and vehicles		**2.2**	1 3
Operating lease rental income – land and buildings		**(0 4)**	(0 2)
Loss on disposal of fixed assets		**0 2**	0 2
Staff costs	5	**103 6**	105 4

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	2013	2012
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 2
Total audit fees	**0 3**	0 3
Remuneration advice	**–**	–
Digital strategy review	**0.3**	0 4
Other services	**0.1**	0 1
Total non-audit fees	**0 4**	0 5
Total fees	**0 7**	0 8
Total fees to the Group auditor	**0 7**	0 8
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 36 No services were provided pursuant to contingent fee arrangements

During the year the Group commissioned an extension of the digital strategy review of the books market to consider technology and market entry strategies 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

As signalled in last year's Annual Report and Accounts the Board held a tender for the provision of external audit services during the year Three audit firms were invited to tender, including the incumbent Deloitte LLP A panel including the Chairman of the Audit Committee, the Chief Financial Officer and other senior members of the finance function considered a written submission and oral presentation from each of the firms As a result the Audit Committee recommended to the Board the re-appointment of Deloitte LLP

4 Non-recurring and other items

£m	2013	2012
Integration costs	**(1.1)**	(2 7)
Network reorganisation costs	**(3 3)**	(2 0)
Acquisition costs	**(3 7)**	(4 6)
Gain on sale of investment	**–**	0 5
Amortisation of acquired intangibles	**(2 8)**	(2 1)
Total before interest	**(10 9)**	(10 9)
Interest	**(0 2)**	–
Total before taxation	**(11 1)**	(10 9)
Taxation	**1 3**	2 3
Total after taxation	**(9 8)**	(8 6)

4 Non-recurring and other items continued

The Group incurred a total of £9 8m in non-recurring and other costs, after tax This comprises

Integration costs

Integration costs of £1 1m have been incurred, including £0 6m relating to the integration of West Mercia Supplies into The Consortium, and £0 4m has been incurred in developing the digital and international strategy in Bertrams which has been invested to roll out the digital platform into European markets

Network reorganisation costs

Network reorganisation costs of £3 3m have been incurred to achieve the current network restructuring programme which is designed to deliver £20m of costs savings over 3 years to FY2015 Of the costs in the period the largest amount relates to redundancy costs of £2 7m

Acquisition costs

Acquisition costs of £3 7m have been incurred including The Consortium acquisition deferred consideration of £3 2m which has been recognised in the P&L, the costs having been spread over the earn out periods at the expected payout levels given the business's strong profit performance Acquisition and new venture set up costs in respect of Erasmus, selected contracts from Blackwell Books Limited and Bertrams direct to consumer proposition were £0 5m

Amortisation of acquired intangibles

Amortisation of acquired intangibles of £2 8m have been incurred relating to acquisitions amortised over their expected economic lives 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, £1 0m relating to the acquisition of Hedgelane Limited in April 2012 and £0 1m relating to the acquisition of contracts from Blackwell Books Limited At 31 August 2013 the remaining net book value to be amortised over future years is £18 4m

5. Staff costs and employees

(a) Staff costs

The aggregate remuneration of employees (including executive directors) was

£m	Note	2013	2012
Wages and salaries		**92 1**	94 8
Social security		**6 5**	6 6
Pension costs	6	**3.1**	2 2
Share-based payments	31	**1.9**	1 8
Total		**103.6**	105 4

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

(b) Employee numbers

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

Number	2013	2012
Operations	**4,036**	4,227
Support functions	**758**	616
Total	**4,794**	4,843

Financial statements

Notes to the Accounts continued

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 2013 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	Pension Trust	Consortium Care	Platinum	2013	Pension Trust Restated	Consortium Care	Platinum	2012 Restated
Present value of defined benefit obligation	**(402.1)**	**(16 8)**	**(0.3)**	**(419 2)**	(379 7)	(15 5)	(0 1)	(395 3)
Fair value of assets	**455.3**	**13 8**	**0.5**	**469 6**	420 0	13 0	0 1	433 1
Net surplus	**53 2**	**(3 0)**	**0 2**	**50 4**	40 3	(2 5)	–	37 8
Amounts not recognised due to asset limit	**(53.2)**	**–**	**–**	**(53 2)**	(40 3)	–	–	(40 3)
Additional liability recognised due to minimum funding requirements	**(20.3)**	**–**	**–**	**(20 3)**	(33 5)	–	–	(33 5)
Pension liability	**(20 3)**	**(3.0)**	**–**	**(23.3)**	(33 5)	(2 5)	–	(36 0)
Pension asset	**–**	**–**	**0 2**	**0 2**	–	–	–	–

The primary defined benefit pension scheme (the Smiths News section of the WH Smith Pension Trust) has an IAS 19 surplus of £53 2m at 31 August 2013 (FY2012 £40 3m surplus) which the Group does not recognise in the accounts as the investment policy being used means that the amount available on a reduction of future contributions is expected to be £nil (FY2012 £nil) 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 actuarial valuation for funding purposes produces a scheme deficit due to different assumptions and calculation methodologies used compared to those under IAS 19, most notably the use of a discount rate that reflects the actual investment strategy, rather than corporate bond yields as required under IAS 19

During the period the triennial actuarial valuation of the Smiths News section of the WH Smith Pension Trust, effective 31 March 2012 was agreed at £33 0m The deficit in the scheme was £23 0m when last estimated at 19 June 2013, reduced from £50 0m at the last valuation date of March 2009 The next valuation date for the scheme will be 31 March 2015

As a result of the reduced actuarial deficit, the Group has agreed a revised schedule of contributions of £4 1m per annum, reduced from £5 8m per annum, through to March 2019 The Group has amended its accounting for such contributions to now recognise the present value of the agreed contributions as a pension liability of £20 3m (FY2012 previously reported £nil, FY2012 restated £34 0m) Further details of this change, which has no impact on earnings, cash flow or covenants, are set out in Note 34

The Group will adopt IAS 19 (Revised) in its financial year ending 31 August 2014 This will involve a change in accounting policy to reflect pension interest in the income statement to be calculated on the net balance sheet position at the beginning of the period We estimate the resulting non-cash pension charge to be approximately £1 0m in the year ending 31 August 2014 The comparatives for the year ending 31 August 2013 will be restated to also reflect a non-cash charge of £1 0m following this required change in accounting policy (compared to a £1 5m non-cash credit shown under the current policy, see Note 7)

Other defined benefit schemes

For the Consortium CARE and Platinum schemes, the Group contributed £0 3m in 2013 The next funding valuation of the Consortium CARE scheme is due on 31 December 2013 The results of the Platinum scheme's 31 December 2012 funding valuation are not yet finalised

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

% p a	2013	2012
Discount rate	**4 45**	4 15
Inflation assumptions – CPI	**2 45**	1 85
Inflation assumptions – RPI	**3 45**	2 75
Expected return on scheme assets	**4 30**	3 72

6 Retirement benefit obligation continued

Life expectancy at age 65	Male	Female	Male	Female
Member currently aged 65	21 9	24 1	21 8	24 0
Member currently aged 45	23 2	25 6	23 1	25 5

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	Impact of IFRIC 14 on defined benefit pension schemes	Net asset/ (liability) on balance sheet
At 31 August 2011 – restated[1]	375 1	(348 3)	(63 1)	(36 3)
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 – restated[1]	–	–	(10 7)	(10 7)
Amount recognised in other comprehensive income	34 0	(28 5)	(10 7)	(5 2)
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 – restated[1]	433 1	(395 3)	(73 8)	(36 0)
Current service cost	–	(0 4)	–	(0 4)
Interest cost	–	(16 1)	–	(16 1)
Expected return on assets	17 6	–	–	17 6
Total amount recognised in income statement	17 6	(16 5)	–	1 1
Actual less expected return on scheme assets	27 9	–	–	27 9
Actuarial losses on scheme liabilities	–	(23 4)	–	(23 4)
Change in surplus not recognised	–	–	0 3	0 3
Amount recognised in other comprehensive income	27 9	(23 4)	0 3	4 8
Employer contributions	7 0	–	–	7 0
Employee contributions	–	–	–	–
Benefit payments	(16 0)	16 0	–	–
Amounts included in cash flow statement	(9 0)	16 0	–	7 0
Business combinations	–	–	–	–
Other changes	–	–	–	–
At 31 August 2013	**469.6**	**(419.2)**	**(73 5)**	**(23 1)**
Included within non-current assets				0 2
Included within current liabilities				(4 1)
Included within non-current liabilities				(19 2)

1 Restatement in respect of retirement benefit obligations, see Note 34

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

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6. Retirement benefit obligation continued

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

£m	2013	2012
Swap financing portfolio[1]	**439 1**	390 5
Interest rate and inflation swaps	**(11.8)**	(11 5)
Equity call options[2]	**27.9**	41 0
Equities (CARE)	**10 2**	9 2
Bonds and cash (CARE, Platinum)	**4.2**	3 9
	469 6	433 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 2013 this comprised £322m in asset and total return swap contracts and £116m 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 £140m

The actual return on scheme assets during FY2013 was a gain of £45 5m (FY2012 a gain of £53 8m) The expected rate of return on these investments, calculated as a weighted average of the expected return on the individual asset classes was 4 3% p a at 31 August 2013 (3 7% p a at 31 August 2012)

Sensitivity of results to changes in the main assumptions

Assumption	Change in assumption	Impact on IAS 19 liabilities
Discount rate	Decrease by 0 5% p a	Increase by £39m
Rate of inflation	Increase by 0 5% p a	Increase by £37m
Life expectancy	Increase by 1 year	Increase by £13m

The history of experience adjustments is as follows

£m	2013	2012	2011	2010	2009
Present value of defined benefit obligation	**(419.2)**	(395 3)	(348 3)	(367 4)	(338 1)
Fair value of assets	**469 6**	433 1	375 1	408 6	357 4
Impact of IFRIC 14 on defined benefit pension schemes	**(73 5)**	(73 8)	(63 1)	(41 2)	(19 3)
Net deficit in the schemes	**(23.1)**	(36 0)	(36 3)	–	–
Experience adjustments on scheme liabilities	**(1.4)**	(1 0)	(4 1)	(1 4)	12 5
Experience adjustments on scheme assets	**27 9**	34 0	(45 8)	39 1	(39 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 £33 1m (FY2012 a loss of £28 6m)

Defined contribution schemes

The Group operates a number of defined contribution schemes For the year ended 31 August 2013, company contributions totalled £2 7m (FY2012 £2 0m) which is included in the Income Statement

7 Finance income and expense

£m	Note	2013	2012
Net income on pension scheme	6	**1 5**	1 2
Net change in fair value of derivative assets		**0.3**	–
Investment revenues		**1.8**	1 2
Interest on bank overdrafts and loans		**(4.7)**	(4 2)
Interest payable on finance leases		**(0.3)**	(0 2)
Unwinding of discount on provisions – trading		**(0 3)**	(0 5)
Finance costs		**(5 3)**	(4 9)
Underlying net finance costs		**(3 5)**	(3 7)
Unwinding of discount on provisions – non-recurring		**(0.2)**	–
Net finance costs		**(3.7)**	(3 7)

8 Income tax expense

£m	2013 Underlying	2013 Non-recurring and other items	2013 Total	2012 Underlying	2012 Non-recurring and other items	2012 Total
Current tax	**15.7**	**(1 3)**	**14.4**	13 6	(1 9)	11 7
Adjustment in respect of prior year UK corporation tax	**(2 6)**	**–**	**(2.6)**	(1 6)	–	(1 6)
Total current tax charge	**13.1**	**(1.3)**	**11.8**	12 0	(1 9)	10 1
Deferred tax – current year	**(0 7)**	**–**	**(0.7)**	(0 6)	(0 4)	(1 0)
Deferred tax – prior year	**(0.3)**	**–**	**(0.3)**	–	–	–
Total tax on profit	**12.1**	**(1 3)**	**10.8**	11 4	(2 3)	9 1
Effective tax rate	**22.8%**		**25 8%**	24 0%		24 9%

The effective underlying income tax rate for the year was 22 8% (FY2012 24 0%) After adjusting for the impact of non-recurring and other items of £1 3m (FY2012 £2 3m), the effective statutory income tax rate was 25 8% (FY2012 24 9%)

Reconciliation of the tax charge

£m	2013	2012
Profit before tax	**41 9**	36 6
Tax on profit at the standard rate of UK corporation tax 23 6% (FY2012 25 2%)	**9 9**	9 2
Permanent differences	**2.8**	1 9
Share schemes	**(0 4)**	(0 4)
Adjustment in respect of prior year UK corporation tax	**(2 9)**	(1 6)
Impact of overseas tax rates	**1.4**	–
Total tax charge	**10 8**	9 1

Tax charges to other comprehensive income

£m	2013	2012 Restated[1]
Current tax relating to the defined benefit pension scheme	**1 2**	1 8
Deferred tax relating to derivative financial instruments	**(0.3)**	0 1
Deferred tax relating to share-based payments	**0 5**	0 2
Deferred tax relating to retirement benefit obligations	**(3.3)**	(1 4)
Tax charges to other comprehensive income	**(1.9)**	0 7

1 Restatement in respect of retirement benefit obligations, see Note 34

9. Dividends

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

	2013 Per share	2012 Per share	2013 £m	2012 £m
Proposed dividends for the year				
Final dividend	**6.3p**	5 8p	**11 6**	10 5
Interim dividend	**3.0p**	2 8p	**5 5**	5 1
	9 3p	8 6p	**17 1**	15 6
Recognised dividends for the year				
Final dividend – prior year	**5.8p**	5 4p	**10.5**	9 8
Interim dividend – current year	**3.0p**	2 8p	**5.5**	5 1
	8.8p	8 2p	**16.0**	14 9

The proposed final dividend for the year ended 31 August 2013 of 6 3p is subject to approval by shareholders at the Annual General Meeting on 23 January 2014 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 7 February 2014 to shareholders on the register at close of business on 10 January 2014

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10. Earnings per share

	2013			2012		
	£m Earnings	**Weighted average number of shares million**	**Pence per share**	£m Earnings	Weighted average number of shares million	Pence per share
Weighted average number of shares in issue		**183 9**			183 5	
Shares held by the ESOP (weighted)		**(1 7)**			(2 2)	
Basic earnings per share (EPS)						
Underlying earnings attributable to ordinary shareholders	**40.9**	**182.2**	**22.4p**	36 1	181 3	19 9p
Non-recurring items	**(9.8)**			(8 6)		
Earnings attributable to ordinary shareholders	**31.1**	**182 2**	**17.1p**	27 5	181 3	15 2p
Diluted EPS						
Effect of dilutive securities		**11 7**			5 8	
Diluted underlying EPS	**40 9**	**193 9**	**21.1p**	36 1	187 1	19 3p
Diluted EPS	**31 1**	**193 9**	**16.0p**	27 5	187 1	14 7p

The acquisition of Hedgelane Limited in April 2012 included £4 0 million of deferred share capital payable contingent on profit targets and the continued employment of the former owners of Hedgelane Limited A maximum of 4 5 million 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 this has been included in diluted EPS

11. Intangible assets
(a) Intangible assets

		Acquired intangibles					
£m	Goodwill	Customer relationships	Trade name	Software	Internally generated development costs	Computer software costs	Total
Cost							
At 1 September 2012	43 1	19 7	2 9	0 7	3 9	24 9	95 2
Additions	0 3	–	–	–	1 7	1 2	3 2
Acquisition of subsidiaries	0 8	2 3	0 1	–	–	–	3 2
Disposals	–	(0 3)	–	–	–	(0 8)	(1 1)
At 31 August 2013	**44.2**	**21.7**	**3 0**	**0 7**	**5 6**	**25 3**	**100.5**
Accumulated amortisation							
At 1 September 2012	–	3 4	0 6	0 3	2 3	21 5	28 1
Amortisation charge	–	2 3	0 3	0 2	1 2	1 0	5 0
Disposals	–	(0 1)	–	–	–	(0 7)	(0 8)
At 31 August 2013	**–**	**5 6**	**0 9**	**0.5**	**3 5**	**21.8**	**32 3**
Net book value at 31 August 2013	**44.2**	**16 1**	**2 1**	**0.2**	**2.1**	**3.5**	**68 2**
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

Within the £2 3m of additions to customer relationships in the year is £2 0m in relation to the acquisition of certain European and African academic library services customer relationships from Blackwells UK Limited on 16 April 2013 by Dawson Books Limited, a 100% owned subsidiary of the Group The remaining £0 3m relates to the Erasmus acquisition which is described more fully in Note 12

11 Intangible assets continued

(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 two remaining CGU's identified at the time of the acquisition, Dawson Books and Media Direct

On the acquisition of Hedgelane Limited on 24 April 2012, the Group recognised goodwill of £20 9m 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

During the year the acquisition of Erasmus on 21 January 2013 generated £0 8m of goodwill and £0 3m of acquired intangible assets The acquisition of certain Blackwell's contracts on 16 April 2013 generated £2 0m of acquired intangibles

Goodwill is not amortised, but tested annually for impairment with the recoverable amount being determined from value in use calculations 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 3 years as approved by the Board and extrapolates these cash flows on an estimated growth rate of 1% into perpetuity The rate used to discount the forecast cash flows ranges from 13 9% to 14 2%, being the Group's risk adjusted pre-tax WACC, specific for each cash generating unit Pre-tax discount rates are derived from the Group's post-tax WACC of 9% risk adjusted by 2% The calculation of value in use is most sensitive to the discount rate and growth rates used Management believes that no reasonable potential change in any of the above key assumptions would cause the carrying value to exceed its recoverable amount

		Goodwill			Acquired Intangibles			Total		
£m	Date of acquisition	**2013**	2012	On acquisition	**2013**	2012	On acquisition	**2013**	2012	On acquisition
Bertrams	March 2009	**4 1**	4 1	4 1	**1.2**	2 0	5 1	**5.3**	6 1	9 2
Dawson Books	August 2011	**12.4**	12 4	12 4	**4 1**	4 6	5 3	**16 5**	17 0	17 7
Houtschild	July 2012	**0.3**	0 3	0 3	**–**	–	–	**0 3**	0 3	0 3
Erasmus	January 2013	**0 8**	–	0 8	**0.3**	–	0 3	**1 1**	–	1 1
Blackwell's contracts	April 2013	**–**	–	–	**2.0**	–	2 0	**2.0**	–	2 0
Book wholesaling		**17 6**	16 8	17 6	**7.6**	6 6	12 7	**25 2**	23 4	30 3
Media direct	August 2011	**5.7**	5 7	5 7	**1.8**	2 2	2 3	**7 5**	7 9	8 0
Marketing services	August 2011	**–**	–	–	**–**	0 2	0 3	**–**	0 2	0 3
Media		**5 7**	5 7	5 7	**1 8**	2 4	2 6	**7.5**	8 1	8 3
Education and care	April 2012	**20 9**	20 6	20 9	**9 0**	10 0	10 4	**29.9**	30 6	31 3
		44.2	43 1	44 2	**18.4**	19 0	25 7	**62.6**	62 1	69 9

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 2013 is £5 5m, and £8 1m respectively with a remaining amortisation period of 8 and 9 years respectively

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12 Acquisitions

FY2013

Acquisitions made during the year contributed £7 4m to the Group's revenue and £0 3m 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

	£m
Revenue	12 4
Operating profit before intangible amortisation and acquisition related costs	0 5

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

	£m
Cash consideration	(3 2)
Cash acquired	0 7
Cash payments to former vendors for excess cash	(0 3)
Net cash outflow in respect of acquisitions	(2 8)
Acquisition related costs – current year acquisitions	(0 3)
Acquisition related costs – deferred consideration relating to The Consortium acquisition made in April 2012	(2 0)
Total net cash outflow in respect of acquisitions	**(5 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 2013, the allocation period for all acquisitions completed since 1 September 2012 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

Erasmus

On 21 January 2013, the Group acquired 100% of the issued share capital of Erasmus Antiquariaat en Boekhandel B V ('Erasmus') via Dawson Books Ltd, a subsidiary of Bertram Trading Ltd

Erasmus, based in the Netherlands, is a leading supplier of high quality books and journals into both academic libraries and Government Institutions mainly 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 Dawson's digital expansion outside of the UK

The consideration was £1 2m and net cash received was £0 4m The provisional fair value of net assets acquired totalled £0 1m Acquired net assets comprised £0 2m of inventories, £2 0m of trade and other receivables, £0 7m of gross cash and £2 8m of trade and other payables

The acquired trade and other receivables fair value of £2 0m had a gross contracted value of £2 1m, the best estimate at the acquisition date of the contractual cash flows not to be collected is £0 1m

The acquisition gives rise to acquired intangibles of £0 3m and £0 8m of 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

12 Acquisitions continued

FY2012

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 Limited ('The Consortium') is a leading independent distributor of consumable products to the education sector and an emerging participant in the care sector The fair values were finalised during FY2013 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	11 4	(0 3)	11 1
Goodwill	20 6	0 3	20 9
Total consideration	**32.0**	**–**	**32 0**

The Consortium contributed £63 8m to revenue and £7 4m to the Group's underlying operating profit before intangible amortisation and acquisition related costs in the year

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, £4m of which is contingent on 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

During the period the Group has incurred £3 2m of deferred consideration expense within non-recurring and other items on the income statement including £2 0m of cash paid to the vendor A further £0 2m of expense is expected to be incurred in FY2014 being the final proportion of the deferred consideration

13 Disposals

On 1 May 2013, the Group disposed of 100% of the share capital in Dawson Marketing Services Limited and its trading subsidiary Marketlink Marketing Communications Limited ('MMC') for £0 3m Due to the nature and size of the business disposed investment, it has not been separately disclosed as a discontinued operation as defined by IFRS 5

MMC contributed £3 9m to revenue and £0 1m to the Group's operating profit in the year

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14 Property, plant and equipment

£m	Land and buildings Freehold properties	Land and buildings Long term leasehold	Land and buildings Short-term leasehold	Fixtures and fittings	Equipment and vehicles	Total
Cost						
At 1 September 2012	4 9	0 4	12 4	11 1	29 5	58 3
Additions	–	–	0 7	0 6	6 2	7 5
Inter segment transfer	–	–	–	(4 1)	4 1	–
Disposals	–	–	(1 2)	(0 3)	(1 1)	(2 6)
At 31 August 2013	**4 9**	**0 4**	**11 9**	**7 3**	**38 7**	**63.2**
Accumulated depreciation						
At 1 September 2012	0 4	0 3	8 2	5 8	19 1	33 8
Depreciation charge	–	–	0 7	0 5	4 1	5 3
Inter segment transfer	–	–	–	(0 5)	0 5	–
Disposals	–	–	(1 1)	(0 3)	(1 1)	(2 5)
At 31 August 2013	**0.4**	**0 3**	**7.8**	**5 5**	**22.6**	**36 6**
Net book value at 31 August 2013	**4 5**	**0 1**	**4 1**	**1 8**	**16.1**	**26 6**
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

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 £1 8m at 31 August 2013 (FY2012 £2 4m)

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	**2013**	2012
Revenue	**9.4**	8 4
Profit after tax	**0.2**	0 3
Non-current assets	**1 2**	1 2
Current assets	**2 2**	1 9
Total assets	**3.4**	3 1
Current liabilities	**(1.9)**	(1 6)
Non-current liabilities	**(0.3)**	(0 5)
Total liabilities	**(2.2)**	(2 1)
Goodwill	**2 9**	2 9
Share of net assets	**4 1**	3 9

15 Interests in jointly controlled entities and associates continued
The jointly controlled entities 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 (FY2012 50%) The latest statutory accounts of FMD Limited were drawn up to 30 April 2013

Rascal Solutions Limited
The Group has a 50% interest in the ordinary shares of Rascal Solutions Limited, a company incorporated in England (FY2012 50%) The latest statutory accounts of Rascal Solutions Limited were drawn up to 31 August 2013

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 2012

16 Inventories

£m	2013	2012
Goods held for resale	**44 2**	44 6

17 Trade and other receivables

£m	2013	2012
Trade receivables	**107.6**	98 7
Allowance for doubtful debts	**(0 7)**	(0 9)
	106.9	97 8
Other debtors	**10.3**	13 2
Prepayments and accrued income	**9.9**	9 3
Trade and other receivables	**127.1**	120 3

Trade receivables
Total trade receivables net of allowances for doubtful debts held by the Group at 31 August 2013 amounted to £106 9m (FY2012 £97 8m), comprising the amounts presented above

The average credit period taken on sale of goods is 19 days (FY2012 23 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

Included in the outstanding trade receivables balance are debtors with an overdue amount of £9 5m (FY2012 £6 1m) that the Group has not provided for as these amounts are still considered recoverable and fall outside our pre-determined provisioning policy

Ageing of past due but not impaired receivables

£m	2013	2012
30–60 days	**6.0**	3 9
60–90 days	**1.1**	1 4
90–120 days	**0.9**	0 3
Over 120 days	**1.5**	0 5
	9.5	6 1

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17. Trade and other receivables continued
Included within the 2013 number is an expected seasonal peak of £4 6m (FY2012 £3 8m) largely within the 30-60 day ageing relating to the recently acquired The Consortium business

Of the trade receivables balance at the end of the year
- Two (FY2012 two) customers had an individual balance that represented more than 10% of the total trade receivables balance The total of these were £29 0m (FY2012 £30 3m), and
- A further three (FY2012 three) customers had individual balances that represented more than 5% of the total trade receivables balance The total of these was £24 4m (FY2012 £23 0m)

Movement in the allowance for doubtful debts

£m	2013	2012
At 1 September	**0.9**	1 4
Impairment losses recognised	**0.3**	0 5
Acquisition of subsidiary	**–**	0 1
Amounts written off as uncollectible	**(0 4)**	(0 7)
Amounts recovered during the year	**(0 1)**	(0 4)
At 31 August	**0.7**	0 9

Ageing of past due and impaired trade receivables

£m	2013	2012
30–60 days	**–**	0 1
60–90 days	**0 1**	0 1
90–120 days	**0 1**	0 1
Over 120 days	**0 5**	0 6
	0 7	0 9

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

Other debtors and prepayments
The largest items included within this balance are £4 9m (FY2012 £6 4m) of publisher debtors and £4 5m (FY2012 £3 1m) of accrued revenue

18. Trade and other payables

£m	2013	2012
Trade payables	**147 2**	140 1
Other tax and social security	**3 5**	4 6
Other creditors	**15 7**	15 4
Accruals and deferred income	**22 3**	21 9
	188 7	182 0

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs The average credit period taken for trade purchases is 26 days (FY2012 31 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

19. Cash and borrowings

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

£m	Sterling	Euro	USD	Other	Total 2013	2012
Cash and cash equivalents	6 4	1 9	1 3	0.5	10 1	5 1
Term loan – disclosed within current liabilities	(3.0)	–	–	–	(3 0)	(3 0)
Term loan – disclosed within non-current liabilities	(34 0)	–	–	–	(34 0)	(37 0)
Revolving credit facility	(62.9)	–	–	–	(62.9)	(60 1)
Asset backed facility	(6 9)	–	–	–	(6.9)	(3 0)
Total borrowings	(106 8)	–	–	–	(106.8)	(103 1)
Net borrowings	(100.4)	1.9	1 3	0.5	(96.7)	(98 0)
Total borrowings						
Amount due for settlement within 12 months	(72.8)	–	–	–	(72.8)	(66 1)
Amount due for settlement after 12 months	(34 0)	–	–	–	(34 0)	(37 0)
	(106 8)	–	–	–	(106 8)	(103 1)

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

Included within cash is £nil of restricted cash (FY2012 £0 4m)

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 20 At 31 August 2013, the Group had £70 2m (FY2012 £76 9m) of undrawn committed borrowing facilities in respect of which all conditions precedents had been met

20. 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 19 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 based on market capitalisation at the year end is as follows

£m	Note	2013	2012
Net borrowings	19	96 7	98 0
Market Capitalisation		346.0	212 2
Net debt to equity ratio		27 9%	46 2%

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 2013, the Group had £177m committed bank facilities in place (FY2012 £180m) This reduced to £174m in September 2013 following a £3m scheduled debt repayment

Bank facilities now comprise
- a £34m syndicated term loan with a further £4m repayable in September 2014 and the balance repayable in November 2014,
- a £95m syndicated revolving credit facility 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, repayable in November 2014, and
- a committed asset backed facility of up to £20m, secured against the debtors of Smiths News, is repayable in November 2014

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Notes to the Accounts continued

20 Financial instruments continued
At 31 August 2013, the Group had available £70 2m (FY2012 £76 9m) of undrawn committed borrowing facilities There were no breaches of loan agreements during either the current or prior years

As the Group is cash generative its liquidity risk is considered low The Group's cash generation allows it to meet all loan commitments as they fall due as well as sustain a negative working capital position

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

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

£m	Due within 1 Year	Due between 1 and 2 years	Due between 2 and 3 years	Greater than 3 years
At 31 August 2013				
Non-derivative financial liabilities				
Bank and other borrowings	**(72 8)**	**(34 0)**	–	–
Finance leases	**(1.0)**	**(0 8)**	–	–
Derivative and other financial liabilities				
Net settled derivative contracts – receipts	**0 3**	**0 1**	–	–
Net settled derivative contracts – payments	**(1.3)**	**(0 3)**	–	–
Derivative and other financial assets				
Net settled derivative contracts – receipts	**0.2**	**0 2**	**0 2**	**0.2**
Total	**(74 6)**	**(34 8)**	**0.2**	**0.2**
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)	–

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 on 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 £3 1m (FY2012 £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 19 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 2013, 100% 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

20 Financial instruments continued
Hedge accounting
There are £60m of interest rate hedges in place until November 2014 and a further £60m in place until November 2017 contracted at an average effective rate of 3 5%

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	
	2013	2012	**2013**	2012	**2013**	2012
Outstanding receive floating, pay fixed contracts						
Less than 1 year	**1 6%**	2 2%	**£120 0m**	£60 0m	**(£0 8m)**	(£1 0m)
2 to 5 years	**1.0%**	2 2%	**£120 0m**	£60 0m	**£0 4m**	(£1 3m)

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)

	Current		Non current	
£m	**2013**	2012	**2013**	2012
Derivatives that are designated and effective as hedging instruments carried at fair value				
Interest rate swaps – Liabilities	**(0.8)**	(1 0)	**–**	(1 3)
	(0.8)	(1 0)	**–**	(1 3)
Interest rate swaps – Assets	**–**	–	**0.4**	–
	–	–	**0 4**	–

At 31 August 2013 it was determined that £20m of a £60m hedge put in place in September 2012 could not be designated within a hedge relationship As a result the movement in the fair value of this part of the hedge was recognised in the P&L resulting in a £290,000 credit being recognised in finance costs with the remainder of the mark to market valuations being recognised in reserves

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Notes to the Accounts continued

20 Financial instruments continued

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 2013 would decrease/increase by £0 4m (FY2012 £0 4m)

Credit risk

The Group considers its exposure to credit risk at 31 August 2013 to be as follows

£m	2013	2012
Bank deposits	**10 1**	5 1
Trade receivables	**106 9**	97 8
	117.0	102 9

Further detail on the Group's policy relating to trade receivables can be found in Note 17 to the Accounts

21. Obligations under finance leases

	2013		2012	
£m	**Minimum lease payments**	**Present value of minimum lease payments**	Minimum lease payments	Present value of minimum lease payments
Amount payable under finance leases.				
Within one year	**1.0**	**1.0**	1 5	1 4
In the second to fifth years inclusive	**0.9**	**0 8**	1 2	1 1
Total	**1.9**	**1 8**	2 7	2 5
Less future finance charges	**(0.1)**	**-**	(0 2)	-
Present value of lease obligations	**1 8**	**1.8**	2 5	2 5
Less Amount due for settlement within 12 months (shown under current liabilities)		**(1 0)**		(1 4)
Amount due for settlement after 12 months		**0 8**		1 1

Group policy is to acquire certain of its fixtures and equipment under finance leases The average lease term is 3 5 years Interest rates are fixed at the contract date All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments

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

22. Other non-current liabilities

£m	2013	2012
Other creditors	**1.6**	2 5

Other creditors within non-current liabilities relate to lease incentives which are being recognised over the period to the first lease break

23. Deferred tax
Deferred tax assets and liabilities are attributable to the following

£m	Accelerated tax depreciation	Other	Share-based payments	Intangible assets	Retirement benefits	Total
At 1 September 2012 – restated	(0 2)	1 1	0 9	(4 1)	8 2	5 9
Charge to income	0 4	(0 2)	0 1	0 6	–	0 9
Charge to other comprehensive income	–	(0 3)	0 5	–	(3 3)	(3 1)
Acquisition/disposal of subsidiary	(0 1)	–	–	–	–	(0 1)
At 31 August 2013	**0.1**	**0 6**	**1.5**	**(3.5)**	**4 9**	**3 6**
Deferred tax assets	0 4	1 3	1 5	–	4 9	8 1
Deferred tax liabilities	(0 3)	(0 7)	–	(3 5)	–	(4 5)
At 1 September 2011 – restated	(0 4)	1 0	0 5	(2 2)	9 1	8 0
Charge to income	0 1	–	0 2	0 5	–	0 8
Charge to other comprehensive income	–	0 1	0 2	–	(1 4)	(1 1)
Acquisition of subsidiary	0 1	–	–	(2 4)	0 5	(1 8)
At 31 August 2012 – restated	(0 2)	1 1	0 9	(4 1)	8 2	5 9
Deferred tax assets – restated	0 3	1 2	0 9	–	8 2	10 6
Deferred tax liabilities	(0 5)	(0 1)	–	(4 1)	–	(4 7)

The Company has capital losses carried forward of £23 9m (FY2012 £23 9m) Deferred tax assets have not been recognised in respect of the capital losses carried forward due to the uncertainty of their utilisation

During the year the Group reconsidered its accounting for deficit contributions of pension schemes and has amended its accounting to recognise future agreed deficit contributions as an IFRIC 14 liability on the balance sheet Accordingly in the 2013 financial statements, we have recognised the present value of the schedule of contributions as a liability of £20 3m and a resulting tax asset of £4 3m on our balance sheet at 31 August 2013 We have also restated our prior year financial statements recognising a liability of £34 0m and resulting deferred tax asset of £8 2m at 31 August 2012 and £36 3m liability and deferred tax asset of £9 1m as at 31 August 2011

Other includes derivative financial instruments Further details are provided in Note 20

The Finance Act 2013, which provides for a reductions in the main rate of corporation tax from 23% to 21% effective from 1 April 2014 and to 20% effective from 1 April 2015, was substantively enacted on 2 July 2013 These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date

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Notes to the Accounts continued

24 Provisions

£m	Reorganisation provisions	Insurance provision	Deferred consideration	Property provisions	Total
Gross provision					
At 1 September 2012	0 3	1 3	2 1	10 8	14 5
Additions	1 4	0 5	1 8	0 6	4 3
Disposal	–	–	–	(0 9)	(0 9)
Utilised in year	(0 3)	(0 4)	(2 0)	(4 1)	(6 8)
At 31 August 2013	**1 4**	**1.4**	**1 9**	**6 4**	**11.1**
Discount:					
At 1 September 2012	–	–	–	(2 0)	(2 0)
Additions	–	–	–	0 2	0 2
Unwinding of discount utilisation	–	–	–	1 0	1 0
At 31 August 2013	**–**	**–**	**–**	**(0 8)**	**(0 8)**
Net book value at 31 August 2013	**1.4**	**1.4**	**1 9**	**5 6**	**10 3**
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

£m	**2013**	2012
Included within current liabilities	**7.5**	7 8
Included within non-current liabilities	**2.8**	4 7
Total	**10.3**	12 5

Reorganisation provisions include amounts for programmes, primarily redundancy costs, that have been announced prior to the year end where not all of the costs have been incurred

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

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

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 12 for further details

25. Contingent liabilities and capital commitments

£m	2013	2012
Bank and other loans guaranteed	**3 6**	3 6

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 2013 of £8 4m (FY2012 £10 9m) This excludes the reversionary lease provision included within property provisions in Note 24

Contracts placed for future capital expenditure approved by the directors but not provided for amount to £nil (FY2012 £nil)

26. Operating lease commitments

The Group as lessee

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

	2013			2012		
£m	**Land and buildings**	**Equipment and vehicles**	**Total**	Land and buildings	Equipment and vehicles	Total
Within one year	**8 1**	**1.6**	**9.7**	10 0	1 3	11 3
In the second to fifth years inclusive	**26 2**	**1 6**	**27.8**	28 9	1 8	30 7
In more than five years	**26 7**	**–**	**26.7**	29 6	–	29 6
	61 0	**3 2**	**64.2**	68 5	3 1	71 6

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	2013	2012
In the second to fifth years inclusive	**0 3**	0 2
	0 3	0 2

Property rental income earned during the year was £0 4m (FY2012 £0 2m)

27 Net cash inflow from operating activities

£m	2013	2012
Operating profit	**45.6**	40 3
Acquisition costs	**3.2**	2 0
Profit on sale of Investment	**–**	(0 5)
	48.8	41 8
Adjustment for pension funding	**(6 5)**	(6 8)
Depreciation of property, plant and equipment	**5 3**	4 9
Amortisation of intangible assets	**5 0**	4 0
Share-based payments	**1 9**	1 8
Decrease/(increase) in inventories	**0 4**	(2 0)
Increase in receivables	**(5 8)**	(3 1)
Increase/(decrease) in payables	**1 5**	(6 3)
Income tax paid	**(10 5)**	(8 0)
(Decrease)/increase in provisions	**(2.2)**	2 2
Net cash inflow from operating activities	**37 9**	28 5

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Notes to the Accounts continued

28 Called up share capital
(a) Share capital

£m	2013	2012
Authorised:		
300 0m ordinary shares of 5p each	**15 0**	15 0
Issued and fully paid:		
184 3m ordinary shares of 5p each (FY2012 183 5m)	**9.2**	9 2

(b) Movement in share capital

£m	Ordinary shares of 5p each
31 August 2012	9 2
At 31 August 2013	**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 763,101 (FY2012 77,482) ordinary 5p shares were issued for a consideration of £655,352 (FY2012 £65,306), resulting in a share premium of £617,197 (FY2012 £61,432)

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 dis-applying the existing provisions of its Memorandum of Association from applying to its Articles of Association

(c) Share premium

£m	2013	2012
Balance at 1 September	**0.6**	0 5
Issue in relation to Sharesave Scheme	**0.6**	0 1
Balance at 31 August	**1 2**	0 6

29. Reserves

(a) Other Reserve

£m	2013	2012
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	2013	2012
Balance at 1 September	**(1 7)**	(2 6)
Acquired in the period	**(3 0)**	(0 8)
Disposed of on exercise of options	**3 2**	1 7
Balance at 31 August	**(1.5)**	(1 7)

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 31) The number of ordinary shares held by the Trust at 31 August 2013 was 1,070,854 (FY2012 1,830,696)

At 31 August 2013 these shares were held at a weighted average value of £1 43 each

(c) Hedging Reserve

£m	2013	2012
Balance at 1 September	**(2 3)**	(2 1)
Gain recognised on cash flow hedges	**1 7**	(0 2)
Balance at 31 August	**(0 6)**	(2 3)

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, ie the portion of the hedge deemed ineffective

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30. Retained Earnings

	£m
Balance at 1 September 2011 – Restated[1]	187 7
Total comprehensive income for the year – Restated[1]	23 0
Dividends paid	(14 9)
Employee share schemes	(0 9)
Credit for equity-settled share-based payments	1 8
Balance at 31 August 2012 – Restated[1]	196 7
Total comprehensive income for the year	33 7
Dividends paid	(16 0)
Employee share schemes	(0 2)
Credit for equity-settled share-based payments	0 7
Balance at 31 August 2013	**214 9**

1 Restatement in respect of retirement benefit obligations see Note 34

31 Share-based payments

The Group recognised total expenses of £1 9m in 2013 (FY2012 £1 8m) related to equity-settled share-based payment transactions

Average share price throughout the year was 158 8p (FY2012 93 4p)

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 10th 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

Long Term Incentive Plan ('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 10th anniversary of the date of grant

31 Share-based payments continued

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 43 to 56

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 September 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 August 2012	2,853,975	83 4p	6,612,582	91 5p	2,310,894	–	1,117,654	–
Granted	665,877	140 0p	1,032,399	152 9p	715,988	–	517,767	–
Exercised	(763,101)	85 9p	(2,821,302)	89 0p	(454,506)	–	(638,319)	–
Expired/Forfeited	(301,193)	82 8p	(235,511)	97 1p	(27,896)	–	–	–
At 31 August 2013	**2,455,558**	**98 0p**	**4,588,168**	**106 5p**	**2,544,480**	**–**	**997,102**	**–**
Exercisable at 31 August 2013	**213,815**	**93 2p**	**604,592**	**94 3p**	**–**	**–**	**–**	**–**
Exercisable at 31 August 2012	–	–	2,201,427	80 1p	–	–	–	–

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

	Sharesave	ESOS	LTIP	DBP
Outstanding at 31 August 2013	**1.8**	**7.6**	**8.4**	**0 6**
Outstanding at 31 August 2012	1 5	8 5	8 6	0 6

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

	Sharesave	ESOS	LTIP	DBP
During 2013				
Effective date of grant or commencement date	June 2013	Nov 2012	Nov 2012	Nov 2012
Average fair value at date of grant or scheme commencement – pence	35 4	19 5	156 6	156 6
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 – pence	13 4	12 3	76 3	79 0

The options outstanding at 31 August 2013 had exercise prices ranging from nil to 152 9p (FY2012 nil to 107 5p)

The weighted average share price on the date of exercise was 161p (FY2012 97p)

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

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31 **Share-based payments** contnued

The inputs to the Black-Scholes model are as follows

	Sharesave	ESOS	LTIP	DBP
2013 options/awards:				
Share price at grant date – pence	175 0	152 9	152 9	152 9
Exercise price – pence	140 0	152 9	–	–
Expected volatility – percentage	33 0	29 0	–	–
Expected life – years	3 0	3 0	–	–
Risk free rate – percentage	1 25	1 25	–	–
Expected dividend yield – percentage	5 5	5 5	5 5	5 5
Weighted average fair value – pence	38 6	19 5	136 7	136 7
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 – percentage	29 0	35 0	–	–
Expected life – years	3 0	3 0	–	–
Risk free rate – percentage	1 25	2 13	–	–
Expected dividend yield – percentage	8 7	8 7	8 7	8 7
Weighted average fair value – pence	13 4	12 3	76 3	79 0

32. 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	**2013**	2012	**2013**	2012
Jointly controlled entities	**0 1**	1 1	**0.3**	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	**2013**	2012
Jointly controlled entities	**0 6**	0 9

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

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	**2013**	2012
Short-term employee benefits	**3 0**	3 1
Post-employment benefits	**–**	–
Share-based payments	**1.1**	1 1
	4 1	4 2

Information concerning directors' remuneration, interest in shares and share options are included in the Remuneration Report on pages 43 to 56

Directors' transactions

There are no other transactions with Directors, other than those set out in Note 6

33 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 Agienciede Ediciones SL	Spain	100%
Dawson France SAS	France	100%
Dawson Holdings Ltd	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%
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%
Hedgelane Limited	England	100%
Erasmus Antiquariaat en Boekhandel B V	Holland	100%
Houtschild Internationale Boekhandel B V	Holland	100%
Magpie Investments Limited[1]	England	51%
FMD Limited*	England	50%

1 Magpie Investments Limited is treated as a subsidiary within the Group financial statements based upon the Group s majority shareholding and the controlling interest on the board

Except as marked all of the above are subsidiaries of Smiths News PLC Those marked with an asterisk are joint 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

Financial statements

Notes to the Accounts continued

34 Restatement of retirement benefit obligation

During the year the Group reconsidered its accounting for deficit contributions of pension schemes and has amended its accounting to recognise future agreed deficit contributions as an IFRIC 14 liability on the balance sheet Accordingly in the 2013 financial statements, we have recognised the present value of the schedule of contributions as a liability of £20 3m and a resulting tax asset of £4 3m on our balance sheet at 31 August 2013 We have also restated our prior year financial statements recognising a liability of £34 0m and resulting deferred tax asset of £8 2m at 31 August 2012 and £36 3m liability and deferred tax asset of £9 1m as at 31 August 2011 There is no impact on net funds, cash flows (including tax payments) or covenants

The impact on the Group's statement of other comprehensive income for the year ended 31 August 2012 was as follows

Group statement of changes in equity

	31 August 2012		
£m	Previously reported	Impact of pension liability recognition	Restated
Effect of asset limit	(13 5)	–	(13 5)
Recognition of schedule of contributions	–	2 8	2 8
Impact of IFRIC 14 on defined benefit schemes	(13 5)	2 8	(10 7)
Loss on cash flow hedge	(0 2)	–	(0 2)
Actuarial gain	5 5	–	5 5
Tax relating to components of other comprehensive income	2 1	(1 4)	0 7
Other comprehensive income	(6 1)	1 4	(4 7)
Profit after tax	27 5	–	27 5
Total comprehensive income	21 4	1 4	22 8

The impact on the Group's opening balance sheet at 31 August 2011 and comparative 31 August 2012 balance sheet and on the cash flows for the years then ended are as follows

Group balance sheet

	31 August 2012			31 August 2011		
£m	Previously reported	Impact of pension liability recognition	Restated	Previously reported	Impact of pension liability recognition	Restated
Deferred tax asset	2 4	8 2	10 6	3 0	9 1	12 1
Retirement benefit obligation	(2 0)	(34 0)	(36 0)	–	(36 3)	(36 3)
Total net liabilities	(51 8)	(25 8)	(77 6)	(60 2)	(27 2)	(87 4)
Retained earnings	222 5	(25 8)	196 7	214 9	(27 2)	187 7
Total equity deficit	(51 8)	(25 8)	(77 6)	(60 2)	(27 2)	(87 4)
Free cash flow	27 2	–	27 2	22 5	–	22 5

Five-year financial summary

Group income statement

£m	12 months to 31 August 2013	31 August 2012	31 August 2011	31 August 2010	31 August 2009
Revenue	**1,810.8**	1,803.9	1,734.4	1,829.6	1,326.0
Operating profit before non-recurring items	**56.5**	51.2	41.7	37.1	32.4
Non-recurring items	**(10.9)**	(10.9)	(6.5)	(6.9)	(10.8)
Operating profit	**45.6**	40.3	35.2	30.2	21.6
Net finance charges	**(3.5)**	(3.7)	(3.1)	(2.1)	(3.2)
Non-recurring interest cost	**(0.2)**	–	–	–	–
Profit before tax	**41.9**	36.6	32.1	28.1	18.4
Income tax expense	**(10.8)**	(9.1)	(10.2)	(6.9)	(0.7)
Profit for the period	**31.1**	27.5	21.9	21.2	17.7
Statutory earnings per share					
Basic	**17.1p**	15.2p	12.1p	11.7p	9.9p
Diluted	**16.0p**	14.7p	11.9p	11.5p	9.9p
Underlying earnings per share					
Basic – continuing operations	**22.4p**	19.9p	15.5p	14.6p	13.8p
Diluted	**21.1p**	19.3p	15.3p	14.4p	13.8p
Dividend per share	**9.3p**	8.6p	8.0p	7.4p	6.7p
Dividend paid (£m)	**16.0**	14.9	13.8	12.6	12.0
Leverage					
Free cash flow	**32.6**	27.2	22.5	20.4	23.7
Operating cash flow	**37.0**	28.5	25.2	24.7	31.9
Total net debt	**(98.5)**	(100.5)	(63.3)	(48.0)	(49.5)
Net debt/EBITDA (covenant 2.5x)	**1.5**	1.6	1.3	1.1	1.3
Interest cover (covenant 3x)	**13.9**	12.9	14.2	17.3	15.0
Fixed charge cover (covenant 2.0x)	**5.3**	4.9	3.6	4.5	–

Group balance sheet

£m	12 months to 31 August 2013	31 August 2012 restated	31 August 2011 restated	31 August 2010	31 August 2009
Non-current assets	**107.6**	106.1	71.7	39.0	40.6
Current assets	**181.4**	170.0	149.4	142.2	150.2
Current liabilities	**(283.0)**	(272.2)	(226.6)	(237.6)	(213.4)
Non-current liabilities	**(60.1)**	(76.8)	(77.0)	(4.1)	(41.2)
Long-term provisions	**(2.8)**	(4.7)	(4.9)	(1.9)	(4.6)
Net liabilities	**(56.9)**	(77.6)	(87.4)	(62.4)	(68.4)
Equity	**10.4**	9.8	9.7	9.6	9.1
Retained earnings	**214.9**	196.7	187.7	211.0	207.4
Other reserves	**(282.2)**	(284.1)	(284.8)	(283.0)	(284.9)
	(56.9)	(77.6)	(87.4)	(62.4)	(68.4)

Financial statements

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 2013 which comprise 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 2013 and of its profit for the year then ended, and
- 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 2013

Alexander Butterworth ACA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Reading, United Kingdom
16 October 2013

Company balance sheet

As at 31 August 2013

£m	Note	2013	2012
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	**(436.6)**	(481 2)
Total net assets		**83 4**	38 8
Capital and reserves			
Called up share capital	5	**9 2**	9 2
Share premium account	5(c)	**1 2**	0 6
Retained earnings	6	**73 0**	29 0
Total shareholders' funds		**83.4**	38 8

These accounts were approved by the Directors on 16 October 2013

Registered number – 05195191

Signed on behalf of the Board of Directors

Mark Cashmore
Director

Nick Gresham
Director

Financial statements

Reconciliation of movements in shareholders' funds

For the year ended 31 August 2013

£m	2013	2012
Opening shareholders' funds	**38.8**	53 6
Dividend paid	**(16 0)**	(14 9)
Shares issued in the year	**0.6**	0 1
Dividend received	**60.0**	-
Net increase in shareholders' funds	**44.6**	(14 8)
Closing shareholders' funds	**83 4**	38 8

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 £60m (FY2012 £nil), being investment revenue received from a wholly owned subsidiary Smiths News Holdings Limited There were no other recognised gains or losses Dividend paid in the year is £16 0m (FY2012 £14 9m)

3 Investments in subsidiary undertakings

£m	2013	2012
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	2013	2012
Amounts owed to Group companies	**436 6**	481 2

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

Financial statements

Notes to the company balance sheet continued

5. Called up share capital
(a) Share capital

£m	2013	2012
Authorised		
300 0m ordinary shares of 5p each	**15.0**	15 0

£m	2013	2012
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 763,101 (FY2012 77,482) ordinary 5p shares were issued for a consideration of £655,352 (FY2012 £65,306), resulting in a share premium of £617,197 (FY2012 £61,432)

(b) Movement in share capital

Number (m)	Ordinary shares of 5p each
At 1 September 2012	183 5
Issued in the year	0 8
At 31 August 2013	**184.3**

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	2013	2012
Balance at 1 September	**0 6**	0 5
Issue in relation to Sharesave Scheme	**0 6**	0 1
Balance at 31 August	**1 2**	0 6

6 Reserves

£m	**2013 Retained earnings**
Balance at 1 September	**29 0**
Dividend paid	**(16 0)**
Dividend received	**60.0**
Balance at 31 August	**73.0**

During the year the Company received a £60m dividend from a wholly owned subsidiary, Smiths News Holdings Limited

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

Shareholder information

Company Secretary and registered office
Stuart Marriner, Smiths News PLC, 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 AGM will be held at Rowan House, Cherry Orchard North, Kembrey Park, Swindon, Wiltshire SN2 8UH on Thursday 23 January 2014 at 11 30am The Notice of AGM 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 AGM 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 30am on 21 January 2014

Electronic proxy voting
You may if you wish register the appointment of a proxy for the meeting electronically, by logging onto the website www sharevote co uk Full details of the procedure are given on the website You will need to have your Proxy Form to hand when you log on as it contains information which will be required CREST members may appoint a proxy electronically via Equiniti (ID RA19) Electronic proxy voting instructions must be received by not later than 11 30am on 21 January 2014

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[1] 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[1] 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)

1 Calls to this number cost 8p per minute plus network extras Lines are open from 8 30am to 5 30pm, Monday to Friday, excluding UK bank holidays

Financial calendar

Financial year end	31 August 2013
Results announced	16 October 2013
Annual Report published	9 December 2013
Final dividend ex-dividend date	8 January 2014
Final dividend record date	10 January 2014
Interim Management Statement	15 January 2014
Annual General Meeting	23 January 2014
Final dividend payment date	7 February 2014
Half-year end	28 February 2014
Interim results announced	April 2014
Interim dividend ex-dividend date	June 2014
Interim dividend record date	June 2014
Interim dividend payment date	July 2014
Interim Management Statement	July 2014
Financial year end	31 August 2014
Results announced	October 2014

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 30am and 4 30pm, Monday to Friday, and for internet dealing log on to www shareview co uk/dealing You will need your shareholder reference number shown on your share certificate

Financial statements

Shareholder information continued

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

Warning to shareholders ('boiler room' scams)
In recent years we have become aware of investors who have received unsolicited calls or correspondence, in some cases purporting to have been issued by us, concerning investment matters These typically make claims of highly profitable opportunities in UK or US investments which turn out to be worthless or simply do not exist These approaches are usually made by unauthorised companies and individuals and are commonly known as 'boiler room' scams Investors are advised to be wary of any unsolicited advice or offers to buy shares If it sounds too good to be true, it often is

See the Financial Conduct Authority website www fca org uk/ consumers/scams for more detailed information about this or similar activity

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 $22^{6}/_{67}$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

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

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

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