

Corporate Governance

Smiths News PLC is committed to achieving high standards of corporate governance. The principal governance rules applying to UK companies listed on the London Stock Exchange, for accounting periods beginning on or after 29 June 2010, are contained in the UK Corporate Governance Code (the "Code").

Statement of compliance with the Code

The Board confirms that the Company has applied the main principles of and has complied with all of the provisions set out in the Code for the financial year ended 31 August 2011. This report, together with the Remuneration Report on pages 61 to 73, describe how the Company has applied the main principles of the Code during the year.

The Board

Board Composition

On 20 October 2011, 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 50 and 51.

There is a clear division of responsibility at the head of the Company; Dennis Millard (Chairman) being responsible for running the Board and Mark Cashmore (Group Chief Executive) being responsible for implementing Group strategy. The division of responsibilities between the Chairman and Group Chief Executive have been set out in writing and agreed by the Board. The Board considers that it is of an appropriate size to oversee the Company's business, 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 50. There have been no significant changes during the year relating to these commitments. The Board is satisfied that the directors who have external directorships have sufficient time available to be effective members of the Board.

The Board's Role

The Board, which had eight scheduled meetings and two additional meetings during the year, manages the Company through a formal schedule of matters reserved for its decision. Such matters include:

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

Directors

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

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

The Company's Articles of Association (the 'Articles') require that directors offer themselves for re-election every three years and that new directors appointed by the Board offer themselves for election at the next Annual General Meeting following their appointment. However, the Board has agreed that all directors will stand for re-election at the Annual General Meeting ('AGM') on 27 January 2012. This practice was introduced last year 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).

Corporate Governance continued

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

Details of the directors' service contracts, remuneration, options to subscribe for shares in the Company and interests of the directors and their immediate families in the share capital of the Company are shown in the Remuneration Report on pages 61 to 73.

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

Audit Committee

The Audit Committee, which met four times during the year, is chaired by John Worby, who the Board has determined has recent and relevant financial experience, and its other members are Andrew Brent, Anthony Cann and Dennis Millard, who all have extensive business experience. John Worby, Andrew Brent and Anthony Cann are independent non-executive directors and Dennis Millard was independent when appointed Chairman. Short biographies of each of the directors, which illustrate their range of experience and qualifications, are set out on pages 50 and 51. At the invitation of the Committee, the Group Chief Executive, Chief Financial Officer, Head of Internal Audit and representatives of the external auditors regularly attend meetings. Other members of the executive management team attend from time to time to address matters specific to their areas of responsibility.

The Committee's terms of reference, which are available on the Company's website (www.smithsnews.co.uk) and from the Company Secretary on request, set out the responsibilities of the Committee. These responsibilities include:

- monitoring the integrity of the annual and interim accounts and other announcements relating to financial performance;
- reviewing significant financial reporting issues and judgments which they contain;
- keeping under review the effectiveness of the internal control and risk management systems;
- monitoring and reviewing the effectiveness of external audit (including auditor independence) and internal audit;
- making recommendations to the Board as to the re-appointment or otherwise of the external auditors; and
- monitoring and reviewing the arrangements for employees to raise, in confidence, concerns about possible improprieties in matters of financial reporting, control and other matters ('whistle-blowing').

In addition to ensuring the integrity of the annual and interim accounts the Committee was also active throughout the year in other key areas, including:

- reviewing the preliminary announcement, Annual Report and Accounts, interim announcement and interim results;
- considering reports from the external auditors reviewing any accounting or judgmental issues requiring its attention;
- approving audit plans for the external and internal auditors;
- considering reports from the Head of Internal Audit on the results of internal audit reviews, significant findings, management action plans, and timeliness of resolution;
- reviewing reports on the Company's risk management process;
- reviewing management of fraud risk and incidences of fraud;
- meeting privately with the external auditors and the Head of Internal Audit;
- reviewing the effectiveness of the internal audit activities;
- reviewing the effectiveness of the Company's whistle-blowing process; and
- reviewing the independence and performance of the internal and external auditors.

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

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

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

Nominations Committee

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

The Committee's terms of reference, which are available on the Company's website (www.smithsnews.co.uk) and from the Company Secretary on request, set out the responsibilities of the Committee, which include the following:

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

The Committee holds one meeting each year to review succession planning and otherwise meets as required.

Remuneration Committee

The Remuneration Committee, which met six times during the year, is chaired by Anthony Cann and its other members are Andrew Brent, Dennis Millard and John Worby. At the invitation of the Committee, the Group Chief Executive, Chief Financial Officer, Group Human Resources Director and representatives of its external independent adviser may attend meetings.

The Committee's principal responsibility is to determine and recommend to the Board the remuneration of executive directors and the Chairman. It also monitors the level and structure of remuneration for senior management and seeks to ensure that remuneration packages are designed to attract, retain, and motivate executive directors and senior management to run the Company successfully. The remuneration of the non-executive directors is determined by the Chairman and the executive directors.

The Remuneration Report, which provides more detailed information on the role of the Committee and the remuneration of the directors, is set out on pages 61 to 73.

The Committee's terms of reference are available on the Company's website (www.smithsnews.co.uk) and from the Company Secretary on request.

Corporate Governance continued

Attendance at Board and Committee meetings

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

No. of meetings ^a	Scheduled Board Meetings	Committee Meetings		
		Audit	Nominations	Remuneration
	8	4	2	6
Dennis Millard	8	4	2	6
Jonathan Bunting	8	—	—	—
Mark Cashmore	8	—	—	—
Nick Gresham	8	—	—	—
Andrew Brent	8	4	2	5
Anthony Cann	8	4	2	6
John Worby	8	4	2	6

a) Two additional Board meetings were held during the year, one of which was by telephone conference call.

The Board has met three times since 31 August 2011, including one telephone conference call, and all the directors attended the meetings. In addition, the Audit Committee has met once and the Remuneration Committee has met twice since 31 August 2011.

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. This process takes place between August and October each year and consists 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. At this meeting, the Board also reviewed and discussed its collective risk appetite, which was the main action arising from the 2010 evaluation process.

As a result of the evaluation, a number of actions were agreed to ensure that the Board as a whole, its Committees and individual directors continue to work effectively, including the need to put in place a programme to ensure that the Board meets its advisers on a regular basis.

Diversity

When considering any new appointment to the Board, it is the Board's policy to evaluate the balance of skills, knowledge, experience and diversity on the Board, and, in the light of this

evaluation prepare a description of the role and capabilities required for a particular appointment. The Board welcomes diversity and will look to undertake the Financial Reporting Council's recommendations for listed companies in the year ahead.

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.

Risk management

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

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

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

The Board undertook a detailed exercise to consider its risk appetite in a number of key areas and discussed these in detail at its September Board meeting. The results of the review will support decision making in FY 2011/12 and the Board intends to review its 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 overall Group strategy, for approving revenue and capital budgets and plans, for approving major acquisitions and disposals and for determining the financial structure of the Group, including treasury and dividend policy.

The Board has established an organisational structure with clearly defined reporting lines and controls at all levels of management across the business, identifying transactions requiring approval by the Board or by the Approvals Committee.

The 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 Audit Committee assists the Board in the discharge of its duties regarding the Group's accounts, accounting policies and the maintenance of proper systems of risk management and internal control.

The system of financial control also includes:

- a comprehensive system for budgeting and planning together with monitoring and reporting the performance of the Company's business to the Board. Monthly results are reported against budget and prior year, and forecasts for the current financial year are regularly revised in the light of actual performance. These cover profits, cash flows, capital expenditure and balance sheets;
- a full appraisal of all major investment projects;
- key controls over major business risks including reviews against performance indicators and exception reporting, and the preparation of monthly management accounts;
- monthly reporting of treasury activities and risks, for review by senior executives; and
- annual reports covering treasury policies, pensions and insurance, for review by the Board or Audit Committee.

Additional non-financial controls include:

- key performance indicators to monitor customer service levels at every location, whilst summary level results are reported to the Board monthly;
- independent customer satisfaction 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;
- a Risk Management team, working with the business to assess health and safety risks and introduce systems to mitigate them. Details of major business incidents are reported to the Risk and Audit Committees and all notified accidents are investigated;
- reports of the Reporting of Injuries, Diseases and Dangerous Occurrence Regulations provided to the Board on a regular basis;

Corporate Governance continued

- 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 the business to continue with minimum disruption to customers in the event of a disaster. These plans are reviewed by the Risk and Audit Committees;
- a Code of Business Conduct (including whistle-blowing) which takes into account the interests of all stakeholders; and
- strict guidelines for the use of confidential customer data.

The Internal Audit team assists in maintaining adequate financial controls. It is also responsible for reviewing the effectiveness of those controls by undertaking an agreed schedule of internal audits each year and reporting its findings to the executive management, Risk and Audit Committees. The schedule of internal audits forms part of an audit plan approved by the Audit Committee annually.

Internal Audit meets annually with senior executives in order to complete a formal certification of the effectiveness of internal controls. These certificates are submitted to the Risk Committee. In turn, the Risk Committee provides 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 specific 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 noted the fraud committed by an employee in Bertrams which had been reported in the interim results in April 2011. The Audit Committee has reviewed this thoroughly and is confident it is an isolated incident. Further controls are now in place to prevent a recurrence and the loss has been covered by our insurance. Save for this incident, the Audit Committee has not identified nor been advised of any failings or weaknesses which it has determined to be significant.

Relations with shareholders

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

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

All shareholders have the opportunity to ask questions at the AGM, which is normally attended by all of the directors. The notice of the AGM is sent to shareholders at least 20 working days before the meeting and includes notice of the availability of the Annual Report on the Company's website. At the AGM, separate resolutions are proposed on each separate issue and shareholders vote on each resolution by way of a poll (rather than on a show of hands). This ensures that the final result is more democratic as the proxy votes are added to the votes of shareholders present, who vote all their shares (rather than one vote per shareholder). Proxy Forms allow shareholders to vote for or against, or to withhold their vote on each resolution, and the results of the poll are announced to the London Stock Exchange and published on the Company's website.

The Board as a whole is kept fully informed of the views and concerns of major shareholders. The Group Chief Executive and Chief Financial Officer update the Board following meetings with major shareholders whilst independent feedback from shareholders is provided to the Board by the Company's advisers and brokers. The Chairman met with certain major shareholders during the year and both he and the Senior Independent Director make themselves available to attend meetings with major shareholders.

Approval

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

Stuart Marriner

Company Secretary
20 October 2011