

Corporate Governance

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

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

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

The Board

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

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

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

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

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

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

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

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

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

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

Board Committees

Audit Committee

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

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

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

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Nominations Committee

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

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

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

Remuneration Committee

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

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

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

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Attendance at Board/Committee meetings

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

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

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

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

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

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

Directors' conflicts of interest

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

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

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

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

Risk management and internal control

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

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i) Risk management

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

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

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

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

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

ii) Internal control

a) Financial controls

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

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

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

b) Non-financial controls

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

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

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External auditors

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

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

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

Relations with shareholders

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

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

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

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

By order of the Board

Mark Charlton
Company Secretary
22 October 2009