

Directors' Report

The directors of Smiths News PLC (the 'Company') present their report and audited financial statements of the Company and its subsidiaries (the 'Group') for the year ended 31 August 2009.

The report contains certain forward-looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results to differ from those anticipated. Nothing stated in this report should be construed as a profit forecast.

Pages 40 to 43 inclusive (together with the sections of the Annual Report incorporated by reference) consist of a directors' report that has been drawn up and presented in accordance with and reliance upon applicable English company law and the liabilities of the directors in connection with the report shall be subject to the limitations and restrictions provided by such law.

Principal activities

The principal activities of the Group are the wholesale distribution of newspapers, magazines and books. Smiths News is the UK's leading wholesaler of newspapers and magazines, serving around 30,000 retailers across England and Wales. Bertrams, which was acquired on 20 March 2009, is a leading UK book wholesaler, supplying books to a mix of independent booksellers, on-line and multiple retailers, and libraries.

The principal companies affecting the profits or net assets of the Group in the year are listed in Note 31 to the Financial Statements.

Business Review

The Company is required by the Companies Act 2006 to set out in this report a review of the business of the Group during the financial year ended 31 August 2009, 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.

The information that fulfils the Business Review requirements can be found in the following sections of the Annual Report, which are incorporated into this report by reference:

- Chairman's Statement on page 8;
- Business Review, comprising the Operating Review and Financial Review, on pages 10 to 31; and
- Corporate Responsibility Review on pages 33 to 37.

Transactions

On 20 March 2009, the Company completed the Acquisition of Bertrams, formerly part of the Woolworths Group, for £8.6m in cash. The Company also purchased on 3 August 2009 certain assets from Dawson News for £1.5m in cash.

Further details of the Acquisition of Bertrams can be found in Note 24 to the Financial Statements.

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Profit and dividends

The profit for the financial year, after taxation, was £17.7m (2008: £26.5m).

The directors recommend the payment of a final dividend for the year of 4.6p per ordinary share (2008: 4.5p) on 5 February 2010 to members on the Register at the close of business on 8 January 2010.

This final dividend, together with the interim dividend of 2.2p per ordinary share paid on 12 June 2009, makes a total dividend of 6.8p per ordinary share for the year ended 31 August 2009 (2008: 6.7p).

Share capital

The Company's authorised share capital is £15,050,040 divided into 300,000,000 ordinary shares of 5p each, 40 deferred shares of £1 each and one redeemable preference share of £50,000. As at the date of this report there are 182,922,386 ordinary shares in issue.

The ordinary shares are listed on the London Stock Exchange and can be held in certificated or uncertificated form.

The rights and obligations attaching to the Company's ordinary, deferred and preference shares, in addition to those conferred on their holders by law, are set out in the Company's Articles of Association, a copy of which can be obtained by writing to the Company Secretary or from Companies House. 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 proxies and to exercise voting rights, and to receive dividends subject to the deduction of any sums due to the Company on account of calls or otherwise.

There are no specific restrictions on the size of a holding nor on the transfer of shares. The Company is not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. Changes to the Company's Articles must be approved by special resolution of the Company.

Details of the Company's employee share schemes are provided in the Remuneration Report on pages 51 to 63. The Trustee of the Smiths News Employee Benefit Trust waives its right to vote and to dividends on the shares that it holds.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

Issue of new ordinary shares

During the financial year ended 31 August 2009, 329 ordinary shares of the Company were issued under the Sharesave Scheme at a price of 85p. The Articles of Association of the Company provide that the Board may, subject to the prior approval of the members of the Company, exercise all the powers of the Company to allot relevant securities including new ordinary shares.

Purchase of own shares

At the Annual General Meeting held on 16 January 2009, authority was given for the Company to purchase, in the market, up to 18,291,993 ordinary shares of 5p each. The Company did not use this authority to make any purchases of its own shares during the financial year. This authority is renewable annually and approval will be sought from shareholders at the Annual General Meeting in 2010 to renew the authority for a further year.

Directors' Report

Substantial shareholdings

As at 22 October 2009 the Company had been notified, in accordance with Chapter 5 of the Disclosure and Transparency Rules, of the following significant holdings of voting rights in its shares:

Holder	Number	%	Nature of Holding
Silchester International Investors Limited	34,803,278	19.03	Direct
Standard Life Investments Limited	9,542,099	5.22	Direct and Indirect Interests
Legal & General Group Plc.	7,350,561	4.02	Direct Interest

Significant agreements - change of control

The Company's trading subsidiaries, Smiths News Trading Limited and Bertram Trading Limited, have agreements with publishers and distributors that contain change of control clauses giving rights to those publishers and distributors 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, Smiths News Trading Limited or Bertram Trading Limited is party, such as banking arrangements, property leases and licence agreements to take effect, alter or terminate. In addition, the executive directors' service agreements and employee share plans would be similarly affected on a change of control, including in the case of the directors, compensation for loss of office if their contracts were terminated. Details of the change of control clause in the service contracts of the executive directors can be found in the Remuneration Report on page 57.

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 Memorandum and Articles of Association.

The names of the directors as at the date of this report, together with biographical details, are set out on page 38. All the directors served throughout the year.

The Company's Articles of Association give a 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 Company's Articles of Association themselves may be amended by special resolution of the shareholders.

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.

Mark Cashmore and Dennis Millard, who have served as directors since 31 August 2006, retire from the Board and, being eligible, offer themselves for re-election. John Worby has led a thorough review of Dennis Millard's contribution to the Board and, following the formal performance evaluation carried out in August 2009, confirms that he continues to be an effective Chairman.

The interests of the directors and their immediate families in the share capital of the Company, along with details of directors' share options and awards, are set out in the Remuneration Report on pages 51 to 63.

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, 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.

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Employees

The Group employs approximately 6,100 people (2008: 4,100) throughout the United Kingdom and it is proud of its long history of being regarded as a responsible and respected employer. Approximately 2,300 new employees joined the Group during the year as a result of the acquisitions of Bertrams in March 2009 (approximately 500 employees) and certain assets of Dawson News in August 2009 (approximately 1,800 employees).

Employees are kept well informed of the performance and objectives of the business through personal briefings and email and the Group's open management style encourages employees to contribute to the development of the business.

The Company operates a HM Revenue & Customs Approved Save-As-You-Earn share option scheme (Sharesave Scheme), which provides employees with the opportunity to acquire shares in the Company. Some 560 employees participate in this scheme (2008: 480).

The Board believes in creating throughout the Group a culture that is free from discrimination and harassment and will not permit or tolerate discrimination in any form. Proper consideration is given to applications for employment when these are received from disabled people and the Group employs disabled people whenever suitable vacancies arise. Should an employee become disabled when working for the Group, efforts are made to continue his/her employment and retraining is provided if necessary.

Charitable and political donations

Charitable donations during the year ended 31 August 2009 totalled £6,594 (2008: £34,826). 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 Review on page 36.

It is the Group's policy not to make political donations and no political donations or EU political expenditure were made in the year (2008: £nil).

Supplier payment policy

The Group's policy for the payment of suppliers, which complies with the CBI Code of Practice for Buyers, is to agree the terms of payment in advance in line with normal trade practice and, provided a supplier performs in accordance with the agreement, to abide by such terms. The Group's trade creditors figure as at the balance sheet date was equivalent to 34 days (2008: 30 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 auditors

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

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Auditors

Resolutions to re-appoint Deloitte LLP as auditors to the Company and to authorise the Audit Committee to determine their remuneration will be proposed at the Annual General Meeting.

Annual General Meeting

The Annual General Meeting of the Company will be held at Wakefield House, Pipers Way, Swindon, Wiltshire SN3 1RF on 15 January 2010 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.

By order of the Board

Mark Charlton
Company Secretary
22 October 2009