THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000, as amended (the "FSMA") if you are resident in the United Kingdom, or, if not, from another appropriately authorised independent financial adviser.

If you have sold or otherwise transferred all of your existing ordinary shares in WH Smith PLC (the "**Company**" or "**WH Smith**", and, together with its subsidiary undertakings, the "**WH Smith Group**"), please send this document, together with the accompanying form of proxy (the "**Proxy Form**") (other than documents or forms personalised to you) as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee. However, these documents should not be forwarded, distributed or transmitted in, into or from any jurisdiction where to do so would violate the laws of that jurisdiction. If you have sold or otherwise transferred only part of your holdings of ordinary shares in WH Smith (the "**Shares**") you should retain these documents and contact the bank, stockbroker or other agent through whom the sale or transfer was effected.

This document is not a prospectus and it does not constitute or form part of any offer or invitation to purchase, acquire, subscribe for, sell, dispose of or issue, or any solicitation of any offer to sell, dispose of, purchase or subscribe for, any securities.

WHSmith

WH SMITH PLC

(Incorporated and registered in England and Wales with registered number 05202036)

Proposed Acquisition of Marshall Retail Group Holding Company, Inc.

and

Notice of General Meeting

This document should be read as a whole. Your attention is drawn to the letter from your Chairman which is set out on pages 10 to 20 of Part I (*Chairman's Letter*) of this document and which recommends you vote in favour of the resolution to be proposed at the General Meeting referred to below. Your attention is also drawn to the risk factors which are set out in Part II (*Risk Factors*) of this document.

Notice of the General Meeting of WH Smith to be held at 11 am on 18 December 2019 at Herbert Smith Freehills LLP, Exchange House, Primrose Street, London EC2A 2EG (the "**General Meeting**") is set out at the end of this document (the "**Notice of General Meeting**"). A Proxy Form for use at this General Meeting is enclosed. Whether or not you intend to be present at the General Meeting, you are asked to complete and return the enclosed Proxy Form in accordance with the instructions printed on it as soon as possible and, in any event, so as to be received by the Company's registrars Computershare Investor Services PLC (the "**Registrar**") at The Pavilions, Bridgwater Road, Bristol BS99 6ZY by no later than 11 am on 16 December 2019 (or, in the case of an adjournment, no later than 48 hours before the time fixed for the holding of the adjourned meeting).

As an alternative to completing and returning the printed Proxy Form, you may submit your proxy electronically by accessing www.investorcentre.co.uk/eproxy. For security purposes, you will be asked to enter the control number, your shareholder reference number (SRN) and personal identification number (PIN) to validate the submission of your proxy online. The control number and members' individual SRN and PIN numbers are shown on the printed Proxy Form or email notification. If you are a member of CREST you may be able to use the CREST electronic proxy appointment service. Proxies sent electronically must be sent as soon as possible and, in any event, so as to be received by no later than 11 am on 16 December 2019 (or, in the case of an adjournment, no later than 48 hours before the time fixed for the holding of the adjourned meeting).

If you have any questions about this document, the General Meeting or the completion and return of the Proxy Form, please contact the Registrar between 8.30 am and 5.30 pm Monday to Friday (excluding public holidays) on 0371 495 0100 (from the United Kingdom), or +44 (0) 371 495 0100 (from outside the United Kingdom, international rates apply). Please note that calls may be monitored or recorded and the Registrar cannot provide financial, legal or tax advice on the merits of the Acquisition.

Greenhill & Co. International LLP ("**Greenhill**"), which is authorised and regulated in the United Kingdom by the Financial Conduct Authority ("**FCA**"), is acting exclusively as lead financial adviser to WH Smith and no one else in connection with the Acquisition and will not regard any other person as its client in relation to the matters set out in this document and will not be responsible to anyone other than WH Smith for providing the protections afforded to its clients, or for providing advice in relation to the Acquisition or any other transaction, arrangement or matter referred to in this document.

J.P. Morgan Securities PLC, which conducts its UK investment banking business as J.P. Morgan Cazenove ("**J.P. Morgan Cazenove**"), is authorised by the Prudential Regulation Authority (the "**PRA**") and regulated by the FCA and the PRA in the United Kingdom. J.P. Morgan Cazenove is acting exclusively as joint financial adviser, sponsor and corporate broker to WH Smith and no one else in connection with the Acquisition and will not regard any other person as its client in relation to the matters set out in this document and will not be responsible to anyone other than WH Smith for providing the protections afforded to clients of J.P. Morgan Cazenove or its affiliates, or for providing advice in relation to the Acquisition or any other transaction, arrangement or matter referred to in this document.

Barclays Bank PLC, acting through its Investment Bank (**"Barclays**"), is authorised by the PRA and regulated by the PRA and the FCA in the United Kingdom. Barclays is acting exclusively as joint financial adviser and corporate broker to WH Smith and no one else in connection with the Acquisition and will not regard any other person as its client in relation to the matters set out in this document and will not be responsible to anyone other than WH Smith for providing the protections afforded to its clients, or for providing advice, in relation to the Acquisition or any other transaction, arrangement or matter referred to in this document.

Apart from the responsibilities and liabilities, if any, which may be imposed on J.P. Morgan Cazenove, Greenhill and Barclays by the FSMA or the regulatory regime established thereunder, or under the regulatory regime of any jurisdiction where the exclusion of liability under the relevant regulatory regime would be illegal, void or unenforceable, J.P. Morgan Cazenove, Greenhill and Barclays accept no responsibility whatsoever for, or makes any representation or warranty, express or implied, as to the contents of this document, including its accuracy, completeness or verification or for any other statement made or purported to be made by it, or on its behalf, and nothing contained in this document is, or shall be, relied on as a promise or representation in this respect, whether as to the past or the future, in connection with the Company or the Acquisition. J.P. Morgan Cazenove, Greenhill, Barclays and their respective subsidiaries, branches and affiliates accordingly disclaim, to the fullest extent permitted by law, all and any duty, liability and responsibility whether arising in tort, contract or otherwise (save as referred to above) in respect of this document or any such statement or otherwise.

This document is a circular relating to the Acquisition which has been prepared in accordance with the Listing Rules solely for the purpose of assisting shareholders' consideration of the Resolution. Any reproduction or distribution of this document, in whole or in part, and any disclosure of its contents or use of any information contained in this document for any purpose other than considering the Resolution is prohibited. The contents of this document are not to be construed as legal, financial or tax advice.

Persons into whose possession this document comes should inform themselves about, and observe, any applicable restrictions and legal, exchange control or regulatory requirements in relation to the distribution of this document and the Acquisition. The release, publication or distribution of this document in certain jurisdictions may be restricted by law. Any failure to comply with such restrictions or requirements may constitute a violation of the securities laws of any such jurisdiction. To the fullest extent permitted by applicable law, the companies and persons involved in the Acquisition disclaim any responsibility or liability for the violation of such requirements by any person.

Notice to US Shareholders

This document is not an offer to sell or issue, or the solicitation of an offer to purchase, subscribe for or otherwise acquire, any securities of the Company in the United States. The securities of the Company discussed in this document have not been and will not be registered under the US Securities Act of 1933, as amended (the "**Securities Act**") or under any securities laws of any state or other jurisdiction of the United States and may not be offered, sold, resold, pledged, delivered, distributed or transferred, directly or indirectly within the United States, except pursuant to an available exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States.

None of the securities of the Company referred to in this document have been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the United States or any other US regulatory authority, nor have such authorities reviewed, passed upon or determined the adequacy or accuracy of this document.

This document is dated 25 November 2019.

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EXPECTED TIMETABLE

Event	Time and Date
Announcement of the Acquisition	17 October 2019
Publication of this document and Notice of General Meeting	25 November 2019
Latest time and date for receipt of Proxy Forms	11 am on 16 December 2019
Voting record date for General Meeting	16 December 2019
General Meeting	11 am on 18 December 2019
Expected date of Completion	During, or prior to, Q1 of 2020
Long-stop date for Completion	31 March 2020

All references to time in this document and in the expected timetable above are to the time in London, United Kingdom, unless otherwise stated. Each of the times and dates in the table above are indicative only and may be subject to change. If any of the above times and/or dates change, the revised times and/or dates will be notified to Shareholders via a Regulatory Information Service.

IMPORTANT INFORMATION

1. Forward-looking statements

Certain statements contained in this document or incorporated by reference into it constitute, or may be deemed to constitute "forward-looking statements". These forward-looking statements include, but are not limited to, statements other than statements of historical facts contained in this document, including, without limitation, those regarding the WH Smith Group's and/or the MRG Group's intentions, beliefs or current expectations concerning, among other things, their future financial condition and performance and results of operations; their strategy, plans, objectives, prospects, growth, goals and targets; future developments in the industry and markets in which the WH Smith Group and/or the MRG Group participate or are seeking to participate; and anticipated regulatory changes in the industry and markets in which the WH Smith Group and the MRG Group operate. In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms "aim", "anticipate", "believe", "continue", "could", "estimate", "expect", "forecast", "guidance", "intend", "may", "plan", "project", "should" or "will" or, in each case, their negative, or other variations or comparable terminology.

By their nature, all forward-looking statements involve risk and uncertainty because they are based on numerous assumptions regarding WH Smith Group's and/or MRG Group's present and future business strategies, relate to future events and depend on circumstances which are or may be beyond the control of the WH Smith Group and/or the MRG Group and which could cause actual results of trends to differ materially from those made in or suggested by the forward-looking statements in this document, including, but not limited to, domestic and global economic business conditions; market-related risks such as fluctuations in interest rates; the policies and actions of governmental and regulatory authorities; the effect of competition, inflation and deflation; the effect of legislative, fiscal, tax and regulatory developments in the jurisdictions in which the WH Smith Group and the MRG Group and their respective affiliates operate; the effect of volatility in the equity, capital and credit markets on profitability and ability to access capital and credit; a decline in credit ratings of WH Smith Group and/or MRG Group the effect of operational and integration risks; an unexpected decline in sales for the WH Smith Group or the MRG Group; inability to realise anticipated synergies; any limitations of internal financial reporting controls; and the loss of key personnel.

Shareholders are cautioned that forward-looking statements are not guarantees of future performance and that the WH Smith Group's, the MRG Group's and, following Completion, the Enlarged Group's actual financial condition, results of operations, cash flows and distributions to shareholders and the development of their financing strategies, and the development of the industry in which they operate, may differ materially from the impression created by the forward-looking statements contained in this document. In addition, even if their financial condition, results of operations, cash flows and distributions to shareholders and the development of their financing strategies, and the development of the industry in which they operate, are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods.

Forward-looking statements should, therefore, be construed in light of the foregoing risk factors and the other factors identified in Part II of the document entitled "Risk Factors". Undue reliance should not be placed on these forward-looking statements. These forward-looking statements are made as at the date of this document and are not intended to give any assurance as to future results. The WH Smith Group will update this document as required by applicable law, including the Listing Rules, MAR and the Disclosure Guidance and Transparency Rules, but otherwise expressly disclaims any obligation or undertaking to update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise. You are advised to read this document and the information incorporated by reference into this document in their entirety, and, in particular, Part II (*Risk Factors*). In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements in this document and/or the information incorporated by reference into this document may or may not occur. Investors should note that the contents of these paragraphs relating to forward-looking statements are not intended to qualify the statements made as to sufficiency of working capital.

2. Market and industry data

Certain information in this document has been sourced from third parties. Where information in this document has been sourced from third parties, the source of such information has been clearly stated adjacent to the reproduced information.

All information contained in this document which has been sourced from third parties has been accurately reproduced and, as far as the Company is aware and is able to ascertain from information published by the relevant third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

All references to market data, industry statistics and forecasts and other information in this document consist of estimates based on data and reports compiled by industry professionals, organisations, analysts, publicly available information or the Company's own knowledge of its sales and markets.

3. Sources and presentation of financial information

3.1 *Presentation of WH Smith Group financial information*

Unless otherwise indicated, the historical financial information relating to the WH Smith Group included in this document has been extracted without material adjustment from the audited consolidated financial statements of the WH Smith Group for the years ended 31 August 2017, 2018 and 2019 and has been prepared in accordance with the International Financial Reporting Standards as adopted by the EU ("**IFRS**").

3.2 *Presentation of MRG Group financial information*

Unless otherwise indicated, the historical financial information relating to the MRG Group included in this document has been extracted without material adjustment from the financial information in relation to the MRG Group for the years ended 1 January 2017, 31 December 2017 and 30 December 2018 set out in Part III (*Historical Financial Information of the MRG Group*) of this document and has been prepared in accordance with IFRS.

3.3 *Enlarged Group financial information*

Following Completion, MRG will be a subsidiary within the WH Smith Group, and the accounting policies applied to the MRG Group will be the same as those applied to the WH Smith Group.

4. Non-IFRS measures of the WH Smith Group's performance

This document contains certain non-IFRS financial measures of the MRG Group's financial performance that are not required by, or presented in accordance with, IFRS. Such non-IFRS measures are included because they are used by the WH Smith Group, the MRG Group and/or will be used by the Enlarged Group to measure business performance and the Directors believe these or similar measures are widely used in the industry as a means of evaluating financial and operating performance.

The non-IFRS measures contained in this document should not be considered in isolation from, or as a substitute for, measures presented in accordance with IFRS. In addition, the relevant non-IFRS measure presented may not be comparable to similarly titled measures presented by other businesses, as such businesses may define and calculate such measures differently than the WH Smith Group and/or the MRG Group. Accordingly, undue reliance should not be placed on the non-IFRS measures contained in this document.

4.1 *EBITDA*

EBITDA is calculated as group operating profit/(loss) before depreciation, amortisation and impairment of goodwill. The following table shows how MRG's adjusted EBITDA is calculated, based on IFRS group operating profit, for the periods presented below:

	For the years ended		
(US$ millions)	**31 December 2017**	**30 December 2018**	**29 December 2019E**
Group operating profit	14.4	15.8	20.7
Non-cash, non-recurring and normalisation	1.6(1)	1.8(2)	0.3(3)
Consulting fee	0.5	0.5	0.5
Pre-opening and request-for-proposal expenses	0.3	1.2	—
Group operating profit, as adjusted	**16.8**	**19.3**	**21.5**
Depreciation and amounts written off property, plant and equipment and amortisation	9.2	9.8	10.0
EBITDA, as adjusted	**26.0**	**29.1**	**31.5**

(1) Non-cash, non-recurring and normalisation includes goodwill impairment of US$1.5m and non-cash rent of US$0.1m for year ended 31 December 2017.

(2) Non-cash, non-recurring and normalisation includes US$1.2m of non-cash rent, US$0.4m of other non-cash items, and US$0.2m of non-recurring and normalisation items for the year ended 30 December 2018.

(3) Non-cash, non-recurring and normalisation includes US$0.3m of other non-cash items for the year ending 29 December 2019.

5. Pro forma financial information

In this document, any reference to "pro forma" financial information is to information which has been extracted without material adjustment from the unaudited financial information contained in Part IV (*Unaudited Pro forma Financial Information of the Enlarged Group*) of this document.

The Unaudited Pro forma Financial Information is for illustrative purposes only. Because of its nature, the pro forma financial information addresses a hypothetical situation and, therefore, does not represent the actual financial position or results of the WH Smith Group or the Enlarged Group.

Future results of operations may differ materially from those presented in the Unaudited Pro forma Financial Information due to various factors.

6. Rounding

Certain financial data and percentages have been rounded. As a result of such rounding, the totals of financial data presented in this document may vary slightly from the actual arithmetic totals of such data and percentages may not add up to 100%.

7. Currency

All references to "pounds", "pounds sterling", "sterling", "£", "pence" and "p" are to the lawful currency of the United Kingdom and all references to "US dollars", "dollar", "US$", and "cents" are to the lawful currency of the United States.

8. No profit forecast or estimates

Other than the MRG Profit Forecast as set out on pages 94 to 95 entitled 'MRG Profit Forecast', no statement in this document is intended as a profit forecast or estimate for any period and no statement in this document should be interpreted to mean that earnings for WH Smith or MRG, as appropriate, for the current or future financial years would necessarily match or exceed the historical published earnings for WH Smith or MRG, as appropriate.

9. Incorporation by reference

The contents of WH Smith's and MRG's websites or any hyperlinks accessible from those websites do not form part of this document and investors should not rely on them.

10. Definitions

Certain terms used in this document, including capitalised terms and certain technical terms, are defined and explained in Part VII (*Definitions*).

DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

Directors
Henry Staunton, Chairman
Carl Cowling, Chief Executive
Robert Moorhead, Chief Financial Officer and Chief Operating Officer
Suzanne Baxter, Non-Executive Director
Annemarie Durbin, Non-Executive Director
Simon Emeny, Non-Executive Director
Drummond Hall, Non-Executive Director
Maurice Thompson, Non-Executive Director

Company Secretary
Ian Houghton

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PART I

CHAIRMAN'S LETTER

WHSmith

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Henry Staunton (*Chairman*)
Carl Cowling (*Chief Executive*)
Robert Moorhead (*Chief Financial Officer and Chief Operating Officer*)
Suzanne Baxter (*Non-Executive Director*)
Annemarie Durbin (*Non-Executive Director*)
Simon Emeny *(Non-Executive Director)*
Drummond Hall (*Non-Executive Director*)
Maurice Thompson *(Non-Executive Director)*

25 November 2019

To the Shareholders and, for information only, to persons with information rights

Dear Shareholder

Proposed Acquisition of Marshall Retail Group Holding Company, Inc.
and
Notice of General Meeting

1. Introduction

On 17 October 2019, WH Smith announced that it had signed an agreement to acquire the entire issued and to be issued share capital of Marshall Retail Group Holding Company, Inc. ("**MRG**"), a leading and fast growing US travel retailer, for US$400 million (approximately £315 million) on a cash and debt-free basis (the "**Acquisition**").

Owing to its size, the Acquisition constitutes a Class 1 transaction for the purposes of the Listing Rules, and therefore requires the approval of Shareholders. Accordingly, a General Meeting has been convened for 11 am on 18 December 2019 at Herbert Smith Freehills LLP, Exchange House, Primrose Street, London EC2A 2EG to approve the Acquisition. Shareholders will be asked at the General Meeting to vote on a resolution to approve the Acquisition (the "**Resolution**")

An explanation of the Resolution is set out in paragraph 12.2 below. The Acquisition will not proceed in the event that the Resolution does not pass.

The Company intends to finance the Acquisition, and related fees and expenses, from: (1) the proceeds of the placing which closed on 17 October 2019 and raised proceeds of approximately £155 million, before expenses (the "**Placing**"), as set out in paragraph 10.1 below; and (2) drawings from the New Debt Facility, as defined and set out in paragraph 10.2 below.

The purpose of this letter is to give you further details of the Acquisition, including the background to and reasons for it, and to explain why the board of Directors of WH Smith (the "**Board**") consider the Acquisition to be in the best interests of WH Smith and Shareholders as a whole and unanimously recommends that Shareholders vote in favour of the Resolution.

2. Background to, and reasons for, the Acquisition

Over the past 10 years, WH Smith has made the growth of its Travel business one of the Group's core strategic priorities, with the contribution of the Group's Travel business to the total trading profit increasing from approximately 49% to approximately 66% in the 10 years between the financial years ended 31 August 2009 and 31 August 2019. Since the opening of its first international store in Copenhagen Airport in 2009, WH Smith has sought to develop its International Travel business significantly, with International Travel contributing over 17% of the total Travel trading profit in the financial year ended 31 August 2019.

In 2018, WH Smith successfully expanded into the fast growing US travel retail market through the acquisition of InMotion Entertainment Group, LLC ("**InMotion**"). The integration of InMotion completed in the financial year ended 31 August 2019 and the performance of the business was ahead of WH Smith's initial expectations for this period.

The acquisition of MRG is expected to broadly double the size of WH Smith's International Travel business, and significantly enhances the Group's scale and growth opportunities in the attractive US airport travel retail market.

The Directors believe that the Acquisition is highly attractive for the following reasons:

Compelling opportunity to accelerate the growth of the Group's International Travel business in the United States

The Directors consider the acquisition of MRG to be an important step in growing the international footprint of the Group's Travel business, and in significantly accelerating its presence in the United States, a large and fast growing travel retail market.

The Group's International Travel business is expected to be a key driver of future growth and value creation for Shareholders, as demonstrated by its strong performance in the last financial year, with a record 45 new unit wins and revenue up 20% in the financial year ended 31 August 2019 compared to the prior financial year. WH Smith also announced on 17 October 2019 a tender win that will launch the WH Smith brand into US airports.

Through the acquisition of MRG, the Directors believe WH Smith will be well positioned to compete for new multi-unit tender opportunities across multiple categories in the US$3.2 billion US airport travel retail market, which grew at a CAGR of over 5% between 2013 and 2018 (US airport travel retail market excluding Duty Free and Food & Beverage, *per AXN Factbook*). The market is underpinned by continued long-term passenger growth, with North American passenger traffic expected to increase from approximately 1.9 billion in 2017 to approximately 2.5 billion in 2027E, growing at a CAGR of 2.9% (North American passenger traffic*, per ACI World Traffic Forecasts*).

Fast growing and highly successful US travel retailer with a proven business model and unique capabilities across channels

MRG is a highly successful US travel retailer, with complementary retail channels across airports, resorts and tourist locations. It has a proven business model, with a distinctive retail offering tailored to local consumers in high traffic locations, as well as expertise in large, multi-brand and multi-category stores. Localised formats and brands help to drive a strong "sense of place" and are a key driver of differentiation for landlords. As an example, in a recent multi-brand and multi-category airport tender process, MRG was the standout winner versus other competitors due to their proposed concept, design expertise, and customer service excellence.

MRG has a strong track record of concession wins in US airports, with sales generated through its airport channel expected to increase to US$84 million for the year ending 29 December 2019, implying a CAGR of over 30% over the last two years. Furthermore, MRG is a leading player and benefits from longstanding relationships and expertise in high return resort and tourism channels (primarily in Las Vegas, NV), which benefit from a stable and captive market base. As is the case with the WH Smith Travel business, MRG benefits from stores in prime locations; consistent footfall; consistent flow of new customers; "impulse driven" purchases; high inventory turn; and insulation from e-commerce. Continued growth in these channels is expected to be supported by a number of long-term trends, including a growing presence of major sporting events and conventions in Las Vegas, NV. MRG's attractive business model is described in more detail in paragraph 4 below.

Significant recent store awards provide strong and highly visible near-term growth prospects

MRG's store count is expected to grow significantly over the next few years, with 36 stores awarded (33 airport stores and 3 tourist / resort stores) and due to open between 2020E and 2024E (of which 24 are scheduled to be opened next year). This provides clear visibility into future growth through adding approximately 43,000 sq. ft. of airport retail selling space to its current airport footprint. This represents an increase of more than 75% from MRG's current footprint of approximately 54,000 sq. ft and underpins the Directors' expectation that MRG will deliver double-digit sales CAGR from 2020E through 2024E.

Combination with WH Smith's existing operations will strengthen the Group's International Travel offering

MRG is highly complementary to the existing offering of the Group's International Travel business, particularly its leadership in tech accessories through InMotion, the Group's expertise in the news, books and convenience market, and in space management. Following the Acquisition, the Group will be able to access all relevant categories in the approximately US$3.2 billion US airport travel retail market, ranging from News & Gift products (such as news, magazines, books, travel accessories, and food-to-go) to Specialty products (such as digital accessories, souvenirs, gifts, apparel, and licensed brand retailing). This enhanced offering is expected to present substantial future opportunities for WH Smith to compete in increasingly sophisticated tenders.

The Acquisition is expected to result in strong financial returns

The US$400 million enterprise value implies a 2019E adjusted EBITDA multiple of 10.0x including synergies; 13.7x excluding synergies[1].

The Directors believe that the Acquisition is financially attractive for the following reasons:

- MRG is expected to generate total sales of approximately US$203 million in the financial year ending 29 December 2019, with an adjusted EBITDA margin of greater than 15%, generating an expected adjusted EBITDA of approximately US$31.5 million, which does not fully reflect the contribution from stores opened year-to-date;
- awarded stores provide clear visibility into future growth, with a 20% increase in sales expected from 2019 to 2020E and double-digit sales CAGR expected from 2020E through to 2024E, driven by awarded stores adding more than 75% to retail square footage within airports;
- annual recurring run-rate cost synergies of approximately US$11 million expected by the third full year following Completion from procurement savings and operational efficiencies;
- additional incremental value creation from the combined business expected to be derived from anticipated growth opportunities for InMotion stores in MRG locations;
- mid-single digit EPS accretion expected in the first full financial year following Completion, and expected to approach double digit EPS accretion in the second full financial year;
- ROIC expected to exceed WACC by the third full year following Completion;
- the Acquisition is expected to enhance the Group's growth, margins, and free cash flow; and
- the Group intends to finance the Acquisition through a disciplined financing structure, reflecting its existing capital allocation policy, with a return to below target leverage of 1.25x expected by the end of the first full financial year post-Completion.

3. Synergies

The Directors believe that the Acquisition presents an opportunity to deliver annual recurring run-rate pre-tax cost synergies of approximately US$11 million through procurement savings and operational cost efficiencies.

The Directors expect the potential cost synergies to be achieved across the following areas:

[1] Acquisition multiple calculated based on the Purchase Price of US$400 million, divided by expected adjusted EBITDA of US$31.5 million for the financial year ending 29 December 2019 less US$2.3 million of pre-tax profit attributable to minority partners (having minority partners is mandatory under some US airport lease contracts).

(i) Procurement savings, to be achieved primarily through the application of best practices in sourcing and buying as well as from access to better harmonised terms (expected to contribute approximately 80% of the full run-rate pre-tax cost synergies).

(ii) Operational cost efficiencies (expected to contribute approximately 20% of the full run-rate pre-tax cost synergies).

The Directors expect to realise approximately 50% of these cost synergies in the first full financial year following Completion, with approximately 85% of these cost synergies achieved in the second full financial year following Completion and full annual run-rate pre-tax cost synergies realised in the third full financial year following Completion and thereafter.

In order to achieve these cost synergies, the Directors expect to incur one-off exceptional operating costs of approximately US$3 million. This is in addition to incremental capital expenditure of approximately US$1.5 million, primarily relating to IT and digital equipment. The Directors expect the one-off operating costs and incremental capital expenditure to be largely incurred in the two year period following Completion with the full amount incurred by the end of the financial year ending 31 August 2022.

In assessing the potential cost synergies, the Board has undertaken a rigorous process. The assessment and quantification of the potential synergies has been informed by the Board's extensive industry experience, knowledge of WH Smith and MRG, as well as information gathered during the due diligence process in respect of MRG. The cost synergies have been assessed relative to the pre-Acquisition cost base of the WH Smith Group for the financial year ended 31 August 2019 and for the MRG Group for the last twelve months ended 31 August 2019.

Furthermore, the Directors anticipate benefiting from additional growth opportunities from the opening of new InMotion stores in resort and tourist locations where MRG operates. This opportunity has not been quantified and any potential benefit will be in addition to the cost synergies of approximately US$11 million set out in this paragraph 3.

The cost synergies set out above are expected to be recurring and contingent on the Acquisition and could not be achieved by WH Smith and MRG operating independently. Both the beneficial elements and relevant costs associated in achieving these synergies are reflected above.

4. Information on MRG

MRG is a leading and fast growing independent US travel retailer that is well known to WH Smith's management team. MRG has complementary retail channels in high traffic airports, resorts and tourist locations. It has a highly successful and proven business model with a strong track record of concession and tender wins. Furthermore, MRG is differentiated from its competitors by its ability to develop distinctive retail experiences tailored to local customers and landlords.

MRG currently operates 170 stores in North America (of which the only location outside of the United States is Vancouver Airport, Canada), with 59 of these inside airports, and generates the majority of its revenue through the sale of news, gifts and convenience products. In the financial year ending 29 December 2019, the airports channel is expected to contribute approximately US$84 million to MRG's total revenue. MRG's future growth prospects are underpinned by its highly successful airport travel retail business, which has a rapidly increasing footprint. With a further 33 new airport stores expected to open by the end of 2024 following a series of successful tenders, MRG is expected to add approximately 43,000 sq. ft. of airport retail selling space, representing an increase of more than 75% from its current footprint of approximately 54,000 sq. ft. These awarded stores provide clear visibility into future growth, with MRG expected by WH Smith to deliver a double-digit sales CAGR from 2020E through 2024E.

MRG is expected to deliver revenue of approximately US$203 million and adjusted EBITDA of approximately US$31.5 million for the financial year ending 29 December 2019, and has demonstrated a track record of delivering store openings and sales growth whilst maintaining increasing margins.

5. Summary financial information on MRG

As noted in the Acquisition Announcement, in accordance with the Listing Rules this document includes full historical financial information on MRG for the last three years, prepared in accordance with IFRS, in a form consistent with the accounting policies adopted by WH Smith in its own annual consolidated accounts. As anticipated in the Acquisition Announcement, the summary financial information on MRG included in the Acquisition Announcement which had been extracted from and based on MRG's historical financial statements prepared in accordance with accounting principles generally accepted in the United Sates ("**US GAAP**"), differs in some areas from the IFRS financials of MRG included in this document.

A comparison of selected MRG summary audited financial information for the financial year ended 30 December 2018 under US GAAP and IFRS is set out below.

(US$ millions)	US GAAP Year ended 30 December 2018	IFRS Year ended 30 December 2018
Operating profit	15.7	15.8
Gross assets	250	264
Balance sheet goodwill	*183*	*196*

A comparison of selected MRG summary audited and unaudited financial information for the financial years ended 31 December 2017 and 30 December 2018 and as expected for the financial year ending 29 December 2019 under US GAAP and IFRS is set out below.

	US GAAP Year ending			IFRS Year ending		
(US$ millions)	31 Dec 2017[(1)]	30 Dec 2018[(1)]	29 Dec 2019E	31 Dec 2017	30 Dec 2018	29 Dec 2019E
Sales	163.2	179.1	204.0	161.2	176.9	202.9
Adjusted EBITDA	23.7	26.8	31.5	26.0	29.1	31.5
Adjusted EBITDA margin	*14.5%*	*15.0%*	*15.4%*	*16.1%*	*16.4%*	*15.5%*

(1) US GAAP Adjusted EBITDA for the year ended 30 December 2018 and 31 December 2017 excludes amounts attributable to MRG's non-controlling interests.

The material differences between MRG's historical financial information prepared in accordance with US GAAP and the IFRS financials of MRG included in this document are set out below:

(i) **Income statement and balance sheet presentation**

The presentation of certain income statement and balance sheet financial statement items have been realigned to conform to WH Smith presentation. In addition, certain correction and reclassification adjustments to previously reported US GAAP amounts have been made to present the consolidated income statement and consolidated balance sheet in accordance with IFRS.

(ii) **IFRS first-time adoption (IFRS 1)**

For first-time adopters of IFRS, full retrospective application is subject to certain optional exemptions, designed to reduce the burden where the cost of retrospective application might exceed the benefits. Certain exemptions are applicable and have been applied to the MRG historical financial information under IFRS, including setting the cumulative translation adjustment to zero at the date of IFRS transition (4 January 2016); electing not to restate prior business combinations under IFRS; and electing to use a previous valuation of property, plant, and equipment as the deemed cost for IFRS.

(iii) **Impairment of assets**

MRG has recognised long-lived asset and goodwill impairments in historical periods. Differences exist in the impairment models under US GAAP and IFRS that have resulted in different impairment conclusions and charges in MRG's IFRS financial statements, including differences in how assets are grouped for purposes of the impairment test; the use of a two-step impairment approach under US GAAP whereby the recoverability of assets is tested first using undiscounted cash flows; and the requirement to reverse impairments under IFRS if the assets have recovered in value, which is prohibited under US GAAP.

As a result of the change in method described above, MRG determined that under IFRS, goodwill should be assigned to three different groups of cash generating units ("**CGUs**"). MRG determined that the recoverable amount of the goodwill allocated to the Apparel group of CGUs was less than its carrying amount, and recognised an impairment of US$1.5 million in 2017.

Further, MRG determined that the recoverable amounts of certain retail stores, which are individually considered CGUs, were less than their carrying amounts. This resulted in an impairment loss of US$0.4 million in 2018. Additionally, US$0.3 million of impairment was recognised in 2016, which was recorded in 2017 under US GAAP. Amounts were recognised against Property, plant, and equipment.

(iv) **Classification of sales discounts**

Under US GAAP, MRG recognised sales discounts related to hotel and resort loyalty programs as an expense within Selling, general and administrative expense on the consolidated income statement. As a result of adopting IFRS 15, MRG recognised these discounts as a reduction of revenue. The reclassification results in a decrease in Distribution costs and a corresponding decrease in Revenue of US$2.2 million and US$2.0 million for the years ended 30 December 2018 and 31 December 2017, respectively. This difference is expected to be US$2.4 million for the financial year ending 29 December 2019.

(v) **Income taxes**

There are differences that exist between US GAAP and IFRS in the accounting for income taxes, including, but not limited to, the recognition and presentation of deferred taxes and tax bases. The principal tax adjustments made by MRG in restating the financial statements include a correction for the current income tax expense recorded related to the non-controlling interest profits which are considered non-taxable and a correction of the timing of a tax deduction recognised related to the goodwill impairment.

(vi) **Non-controlling interests**

Prior to 30 December 2018, MRG recognised distributions to non-controlling interests as reductions to profit in the period the distribution was made. MRG changed its accounting policy and began to account for these interests in accordance with Accounting Standards Codification 810 *Consolidation* (ASC 810) as at 30 December 2018. IFRS 10 requires non-controlling interests to be presented in the consolidated balance sheet within equity, separately from the equity of the owners of the parent. Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests in each period.

6. Information on WH Smith

WH Smith is listed on the London Stock Exchange (LSE: SMWH) and is a constituent of the FTSE 250 Index. The Group is a leading global retailer in news, books and convenience for the world's travelling customer. With approximately 1,600 stores in locations across the globe, the Group offers customers a wide range of books, newspapers & magazines, travel accessories, and food & drink.

WH Smith has two businesses, Travel and High Street. The Travel business operates from 586 units in UK airports, hospitals, railway stations and motorway service areas, and 433 units outside of the UK (including InMotion). The Travel business currently accounts for approximately two-thirds of Group trading profits. The High Street business operates from 576 stores, with an extensive reach across the UK and a presence on nearly every significant UK high street. The High Street business sells a wide range of products, across the following categories: Stationery (including greetings cards), Books, and News and Impulse (including newspapers, magazines and confectionery).

The WH Smith Group employs around 14,000 people, primarily in the UK.

7. Integration and management

MRG has a strong existing management team, led by Michael C. Wilkins (CEO) and David Charles (President / COO), who have been known to WH Smith's management team for a number of years, and will continue to run the business following Completion. WH Smith has put in place a clear integration plan to facilitate MRG's transition into the Group. MRG management will be incentivised to drive the continued growth of the business, aligned with the objectives of the Enlarged Group going forward. WH Smith expects to incur one-time costs of approximately US$2-3 million as part of integrating MRG into the Group. These one-time integration costs of approximately US$2-3 million are prior to, and separate from, the costs of realising the cost synergies set out in paragraph 3 of this Part I (*Chairman's Letter*).

8. Key terms of the Acquisition

On 17 October 2019, WH Smith, WH Smith USA Holdings Inc., a wholly owned subsidiary of WH Smith ("**WH Smith USA**"), and MRG Acquisition Holdings, LLC, a Delaware limited liability company wholly owned by the MRG Shareholders ("**MRG Acquisition Holdings**"), entered into a stock purchase agreement (the "**SPA**"), which sets out the terms and conditions for WH Smith USA to purchase all of the issued and outstanding common stock of MRG (the "**MRG Shares**"). Upon Completion, WH Smith will, indirectly, hold all equity interests in MRG.

The total consideration for the MRG Shares is US$400 million (the "**Purchase Price**"), which is subject to adjustments in relation to indebtedness, working capital, cash and Acquisition expenses of MRG.

Under the SPA, MRG Acquisition Holdings made customary representations and warranties to WH Smith and WH Smith USA, and WH Smith and WH Smith USA made customary representations and warranties to MRG Acquisition Holdings. The fundamental title and capacity warranties survive for a period of six years from the date of Completion (the "**Completion Date**"), while all other representations and warranties survive for a period of 12 months after the Completion Date.

WH Smith has obtained a US$40 million warranty and indemnity insurance policy (the "**R&W Policy**") in respect of the warranties and indemnities contained in the SPA, subject to certain specified limitations agreed with the insurers.

WH Smith's sole recourse for MRG's breach of non-fundamental warranties is an indemnity escrow account of US$1.5 million and the R&W Policy. For breaches of fundamental warranties, WH Smith's first source of recovery would be the indemnity escrow account and the R&W Policy, and once such account has been utilised and coverage has been exhausted, MRG Acquisition Holdings will be liable for excess damages up to the Purchase Price. WH Smith also has additional escrows and indemnities relating to specific items, including a non-material litigation matter and the delayed opening of certain stores.

Completion of the Acquisition is conditional upon, among others, the satisfaction or waiver of the following conditions (the "**Conditions**"):

(i) the approval of the Acquisition (as a Class 1 transaction under the Listing Rules) by Shareholders (the "**Shareholder Approval**") passing an ordinary resolution at the General Meeting;

(ii) obtaining consent from certain store landlords;

(iii) the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "**HSR Act**") and under any other applicable competition laws; and

(iv) the representations and warranties of WH Smith USA and MRG Acquisition Holdings being true and correct as at the Completion Date, subject to certain exemptions based on materiality, material adverse effect and similar standards.

Pursuant to the requirements of the HSR Act, WH Smith and MRG each filed a Notification and Report Form with respect to the Acquisition with the US Federal Trade Commission (the "**FTC**") and the US Department of Justice (the "**DOJ**") on 24 October 2019 and requested early termination of the HSR Act waiting period. The applicable HSR Act waiting period for the Acquisition expired on 1 November 2019.

Certain of the leases and awards under which the MRG Group operates or will operate stores include terms giving the landlord an ability to terminate the lease or award following a change of control of MRG. The termination of such leases or awards could have a material adverse effect on the MRG Group. Accordingly, Completion is conditional on receiving consents from landlords such that, when taken together with stores and awards for which there are no change of control termination rights, WH Smith is not required to complete the Acquisition if any termination of leases or awards arising from a change of control of MRG would have a material adverse effect on the EBITDA of the MRG Group.

See further the risk factor "*Completion is subject to a number of Conditions which may not be satisfied or waived or which may be satisfied subject to conditions imposed by regulatory bodies or other third parties and may result in Completion being delayed or the Acquisition not completing*" in Part II (*Risk Factors*) of this document.

The SPA contains customary termination rights, including upon mutual consent of the parties, by either party for a material breach of the SPA by the other party, by MRG Acquisition Holdings if WH Smith does not hold the General Meeting by 31 January 2020 or by either party if the General Meeting is held and WH Smith does not obtain Shareholder Approval or if the Acquisition has not closed by 31 March 2020.

Under the SPA, WH Smith USA is required to pay a termination fee of US$10 million to MRG Acquisition Holdings if MRG Acquisition Holdings terminates the SPA as a result of the General Meeting not being held by 31 January 2020, if the Board changes its recommendation that the Shareholders vote in favour of the Acquisition, or the Resolution not being approved by 31 March 2020.

For more information on the SPA, see Part V (*Summary of the Principal Terms and Conditions of the Stock Purchase Agreement*) of this document.

Assuming satisfaction or waiver of all Conditions, Completion is expected to occur during, or prior to, Q1 of 2020. The expected timetable of principal events for the Acquisition is set out on page 4. Any revision to this timetable will be promptly notified to Shareholders, by WH Smith, via a Regulatory Information Service. Following Completion, WH Smith will announce via a Regulatory Information Service that the Acquisition has taken effect.

9. Capital allocation policy and dividends

WH Smith's disciplined approach to cash and capital allocation remains unchanged, and the Group continues to be focused on maintaining a prudent balance sheet, cash generation and value creation for Shareholders. The Acquisition is consistent with WH Smith's strategy of allocating capital to growth areas of the business where the Group is able to generate strong returns and enhance shareholder value. Through a combination of ordinary dividends, buybacks and special dividends, WH Smith has returned approximately £1 billion to Shareholders since 2007.

WH Smith's share buyback programme is being suspended to support near-term deleveraging, with the Group expecting to return to below its target 1.25x net debt/EBITDA leverage ratio by the end of the first full financial year following Completion. WH Smith's progressive dividend policy remains unchanged.

10. Financing the Acquisition

WH Smith intends to finance the Acquisition from: (1) the proceeds of the Placing of approximately £155 million, before expenses; and (2) drawings from the New Debt Facility (as defined in paragraph 10.2 below).

The proceeds of the Placing and drawings from the New Debt Facility will be available for the following purposes: (1) financing the consideration payable for the Acquisition; (2) payment of fees, costs and expenses in connection with the Acquisition; and (3) refinancing any of MRG's existing debt (including the MRG Debt Facility).

On 17 October 2019, WH Smith entered into a deal-contingent forward transaction (the "**Hedging Arrangement**") on the sterling-dollar foreign exchange rate. This Hedging Arrangement has the economic effect of locking the foreign exchange rate of the consideration payable for the Acquisition, from the US dollar amount of US$400 million into pounds sterling at approximately £315 million. In the event that the Acquisition, as documented in the SPA, does not complete, WH Smith would not occur any cost under the Hedging Arrangement.

10.1 *Placing*

The Company announced on 17 October 2019 that it intended to raise up to £155 million (before fees and expenses) by way of an accelerated bookbuild placing of new Shares (the "**Placing**"). The Company further announced on 17 October 2019 that the Placing had closed and that the Company would issue 7,209,303 new Shares (the "**Placing Shares**") at a price of 2,150 pence per share (the "**Placing Price**") raising total proceeds of approximately £155 million (before fees and expenses).

Applications were made for the Placing Shares to be admitted to the premium listing segment of the Official List of the FCA and to trading on the main market for listed securities of the London Stock Exchange. The Placing Shares were issued and admission of the Placing Shares became effective and dealings on the London Stock Exchange commenced on 21 October 2019.

The Placing Shares rank *pari passu* in all respects with the existing Shares of WH Smith, including the right to receive all dividends and other distributions declared or paid in respect of the Shares.

The Company intends to use the net proceeds of the Placing in part payment of the consideration payable in respect of the Acquisition.

The Placing was not conditional upon completion of the Acquisition. If one or more of the Conditions are not satisfied and Completion does not occur, proceeds of the Placing will be returned to Shareholders in an efficient manner.

The Placing was underwritten subject to the conditions set out in the Placing and Sponsor's Agreement (see further paragraph 5.1.2 of Part VI (*Additional Information*)).

10.2 *New Debt Facility*

On 17 October 2019, WH Smith entered into a term credit facility agreement of up to £200 million with (among others) Banco Santander S.A., London Branch, Barclays Bank PLC, BNP Paribas Fortis SA/NV and HSBC UK Bank PLC (as mandated lead arrangers and original lenders) and Banco Santander S.A., London Branch (as agent) for, among other things, the financing of the Acquisition, refinancing of any of MRG's existing debt, and the payment of any related fees and expenses (the "**New Debt Facility**").

For more information on the New Debt Facility, see paragraph 5.1.3 of Part VI (*Additional Information*).

10.3 *Existing RCF Facility*

On 17 October 2019, WH Smith obtained additional commitments of £60 million under the terms of its existing revolving credit facility of originally £140 million between (among others) Barclays Bank PLC, HSBC Bank PLC, Santander UK PLC and BNP Paribas (as mandated lead arrangers and bookrunners and original lenders) and Banco Santander S.A., London Branch (previously Santander UK plc) (as facility agent) (the "**Existing RCF Facility**").

The Company has obtained the additional commitments under the Existing RCF Facility to provide additional headroom for the Enlarged Group's working capital requirements reflecting the Enlarged Group's increased scale. The Company does not intend to use the Existing RCF Facility to finance the Acquisition.

For more information on the Existing RCF Facility, see paragraph 5.1.5 of Part VI (*Additional Information*).

11. Current trading and prospects for WH Smith and MRG

11.1 *WH Smith*

WH Smith released its preliminary results for the year ended 31 August 2019 on 17 October 2019.

The total Group revenue was up 11% at £1,397 million for the year ended 31 August 2019 (2018: £1,262 million) with the Group LFL revenue up 1% compared to the last year.

The Group profit from trading operations increased 9% on the prior year to £177 million (2018: £163 million) with the headline Group profit before tax increasing by £10 million to £155 million (2018: £145 million), up 7%. Including non-underlying items relating to the acquisition of InMotion and the completed review of the High Street business announced in October 2018, the Group profit before tax was £135 million (2018: £134 million).

The Group's Travel business, which generates two thirds of annual Group profit from trading operations, delivered a strong performance. Trading profit increased by 14% to £117 million of which £20 million (2018: £11 million) relates to the Group's growing International Travel business, including InMotion. Total revenue was up 22% compared to last year and up 3% on a LFL basis driven by the

Group's initiatives, ongoing investment and growth in passenger numbers. Gross margin, excluding InMotion, was up 100bps compared to last year. The Group continues to invest in the business and opened 19 new units in the UK during the year, taking the Group to a total of 586 units in the UK.

The Group's International Travel business, including InMotion, is growing fast. During the year, the Group won 45 units across Australia, Europe, the Middle East, South East Asia and North America. As at 31 August 2019, the Group had 433 units open internationally (31 August 2018: 286 units).

The acquisition of InMotion, a market leading digital and travel accessories retailer in US airports, was completed on 30 November 2018. InMotion operates from 116 stores across 43 airports in the US. The integration of the business completed in the financial year ended 31 August 2019 and its performance was ahead of the Group's initial expectations for this period. During the period, InMotion contributed operating profit of £8 million and revenue of £94 million. Non-underlying costs relating to the acquisition were £13 million in the year.

The Group's High Street business delivered a good performance with trading profit of £60 million, in line with expectations (2018: £60 million) and second half profit up £2 million on last year. Total revenue was down 2% with LFL revenue also down 2% compared to the prior year. The Group saw a good gross margin performance and costs were tightly controlled. Cost savings of £9 million were delivered in the year in line with plan. An additional £7 million of cost savings have been identified, making a total of £17 million over the next three years, of which £9 million are planned for the financial year ending 31 August 2020.

As at 31 August 2019, the Group's Travel business operated from 1,019 units (31 August 2018: 867 units) and the High Street business operated from 576 WH Smith stores (31 August 2018: 578 WH Smith stores). Excluding franchises, Travel and High Street occupied 0.7 million square feet and 2.7 million square feet, respectively.

Year to date Group performance is in line with the Company's expectations for the current financial year.

11.2 *MRG*

MRG has performed strongly in the current year, with sales growth of approximately 14% during the 39 week period to 29 September 2019 compared to the same period in 2018 (based on unaudited US GAAP management accounts). This sales growth has been driven primarily by new store openings during 2018 and 2019, as well as an increase in airport sales at existing stores.

During the same period, reported EBITDA has grown by approximately 8.5%. Operating costs have increased, principally due to higher payroll and occupancy costs, reflecting both the growth in sales and the increase in store footprint.

MRG continues to open new stores across airports, resorts and tourist locations in the United States, with 12 stores having opened during the 39 week period to 29 September 2019.

12. General Meeting and the Resolution

12.1 *General Meeting*

Owing to its size, the Acquisition constitutes a Class 1 transaction for the purposes of the Listing Rules, and therefore requires the approval of Shareholders. Accordingly, a General Meeting has been convened for the purpose of approving the Acquisition.

Set out on pages 91 to 93 of this document is the Notice of General Meeting to be held at 11 am on 18 December 2019 at Herbert Smith Freehills LLP, Exchange House, Primrose Street, London EC2A 2EG at which the Resolution (summarised below) will be proposed. The full text of the Resolution is set out in the Notice of the General Meeting.

The Resolution will be proposed as an ordinary resolution requiring a simple majority of votes cast in favour.

12.2 *Resolution*

The implementation of the Acquisition is conditional upon, among other things, Shareholders' approval of the Resolution being obtained at the General Meeting.

The Resolution proposes that the Acquisition be approved and the Directors be authorised to make any non-material amendments, waivers or extensions to the terms of the Acquisition or the SPA which they in their absolute discretion consider necessary, appropriate or desirable to implement the Acquisition and to take all steps and to do all things which they consider necessary or desirable to implement the Acquisition.

In the event that the Resolution is not passed, the Acquisition will not proceed.

12.3 *Actions to be taken*

If you are a Shareholder, you will find enclosed with this document a Proxy Form for use at the General Meeting. Whether or not you intend to be present at the General Meeting, you are asked to complete and return the enclosed Proxy Form in accordance with the instructions printed on it as soon as possible and, in any event, so as to be received by the Registrar at The Pavilions, Bridgwater Road, Bristol BS99 6ZZ by no later than 11 am on 16 December 2019 (or, in the case of an adjournment, no later than 48 hours before the time fixed for the holding of the adjourned meeting). As an alternative to completing and returning the printed Proxy Form, you may submit your proxy electronically by accessing www.investorcentre.co.uk/eproxy. For security purposes, you will be asked to enter the control number, your shareholder reference number (SRN) and personal identification number (PIN) to validate the submission of your proxy online. The control number and members' individual SRN and PIN numbers are shown on the printed Proxy Form or email notification.

If you are a member of CREST you may be able to use the CREST electronic proxy appointment service. Proxies sent electronically must be sent as soon as possible and, in any event, so as to be received by no later than 11 am on 16 December 2019 (or, in the case of an adjournment, no later than 48 hours before the time fixed for the holding of the adjourned meeting).

Please refer to the Notice of General Meeting on pages 91 to 93 for guidance notes on the completion and return of the Proxy Form and other applicable voting documentation.

12.4 *Further information*

Your attention is drawn to the additional information set out in Part II (*Risk Factors*) and Part VI (*Additional Information*) of this document. You are advised to read the whole document and not merely rely on the key or summarised information in this letter.

13. Financial advice

The Board has received financial advice from Greenhill (as lead financial adviser), J.P. Morgan Cazenove (as sponsor, joint financial adviser and corporate broker) and Barclays (as joint financial adviser and corporate broker) in relation to the Acquisition. In providing their financial advice to the Board, each of Greenhill, J.P. Morgan Cazenove and Barclays has relied upon the Board's commercial assessment of the Acquisition.

14. Recommendation

The Board considers the Acquisition and the Resolution to be in the best interests of WH Smith and Shareholders as a whole. Accordingly, the Board unanimously recommends that Shareholders vote in favour of the Resolution set out in the Notice of General Meeting, and the Directors intend to do so in respect of their beneficial holdings amounting to 254,195 Shares in aggregate, representing approximately 0.22% of the existing ordinary share capital of WH Smith in issue on 22 November 2019, being the Latest Practicable Date.

Yours faithfully

Henry Staunton
Chairman

PART II

RISK FACTORS

The Acquisition may give rise to a number of risks which, if they occur, may have a material adverse effect on the business, prospects, financial condition and/or results of operations of the WH Smith Group, the MRG Group and, following Completion, the Enlarged Group. Accordingly, the risk factors should be afforded careful consideration together with all the other information set out in, or incorporated by reference into, this document in deciding whether to approve the Resolution being put to the Shareholders at the General Meeting.

The risks which the Directors consider to be material as at the date of this document are set out in this Part II. The risks described in this Part II are based on information known at the date of this document but may not be the only risks to which the WH Smith Group, the MRG Group and, following Completion, the Enlarged Group are or might be exposed.

Additional risks and uncertainties, which are currently unknown to the WH Smith Group or that the WH Smith Group does not currently consider to be material, may adversely affect the business of the WH Smith Group and, following Completion, the Enlarged Group and could have material adverse effects on the business, prospects, financial condition and/or results of operations of the WH Smith Group, the MRG Group and, following Completion, the Enlarged Group.

If any of the following risks were to materialise, the business, prospects, financial condition and/or results of operations of the WH Smith Group, the MRG Group and, following Completion, the Enlarged Group could be materially adversely affected and the value of Shares could decline and Shareholders could lose all or part of their investment in those Shares.

Shareholders should read this document as a whole and not rely solely on the information set out in this section.

1. Material risks relating to the Acquisition

1.1 *Completion is subject to a number of Conditions which may not be satisfied or waived or which may be satisfied subject to conditions imposed by regulatory bodies or other third parties and may result in Completion being delayed or the Acquisition not completing*

Completion of the Acquisition is conditional upon, among others, the satisfaction or waiver of the following Conditions:

(i) the approval of the Acquisition (as a Class 1 transaction under the Listing Rules) by Shareholders passing an ordinary resolution at the General Meeting;

(ii) obtaining consent from certain store landlords;

(iii) the expiration or termination of the applicable waiting period under the HSR Act and under any other applicable competition laws; and

(iv) the representations and warranties of WH Smith USA and MRG Acquisition Holdings being true and correct as at the Completion Date, subject to certain exemptions based on materiality, material adverse effect and similar standards.

Pursuant to the requirements of the HSR Act, WH Smith and MRG each filed a Notification and Report Form with respect to the Acquisition with the FTC and the DOJ on 24 October 2019 and requested early termination of the HSR Act waiting period. The applicable HSR Act waiting period for the Acquisition expired on 1 November 2019.

The Acquisition will constitute a change of control event under certain store leases and concessions, giving the counterparty the right to terminate the agreement on a change of control of MRG. The termination of such leases or awards could have a material adverse effect on the MRG Group. Accordingly, Completion is conditional on receiving consents from landlords such that, when taken together with stores and awards for which there are no change of control termination rights, WH Smith is not required to complete the Acquisition if any termination of leases or awards arising from a change of control of MRG would have a material adverse effect on the EBITDA of the MRG Group. In the event that certain consents are not obtained or take longer to obtain, the Completion may be delayed or may not occur. In addition, as part of the consent process, landlords may seek to renegotiate the terms of their contracts.

There is no guarantee that the Conditions will be satisfied (or waived, if applicable) in the necessary time frame and the Acquisition may, therefore, be delayed or not completed. Although WH Smith and MRG have agreed in the SPA to use their reasonable best efforts, subject to certain limitations, to complete the Acquisition as promptly as practicable, the Conditions may fail to be satisfied. In addition, satisfying the Conditions may take longer than WH Smith and MRG expect and could impact expected costs. Any delay in completing the Acquisition may adversely affect the synergies and other benefits that WH Smith expects to achieve if the Acquisition and the integration of the companies' respective businesses are not completed within the expected timeframe. In addition, WH Smith's and MRG's management would have spent significant time in connection with the Acquisition, which could otherwise have been spent in connection with the other activities of the WH Smith Group and the MRG Group, as applicable.

Therefore, the aggregate consequences of a material delay in completing or failure to complete the Acquisition may have a material adverse effect on the business, prospects, financial condition and/or results of operations of the WH Smith Group, the MRG Group and, in the case of a delay only, the Enlarged Group.

1.2 *The Enlarged Group's success will be dependent upon its ability to integrate the WH Smith Group and the MRG Group and deliver the value of the combined underlying businesses; the full financial benefits and synergies expected from the Enlarged Group may not be fully achieved*

The WH Smith Group and the MRG Group have operated and, until Completion, will continue to operate, independently and there can be no assurances that their businesses can be integrated successfully. The success of the Enlarged Group will depend, in part, on the effectiveness of the integration process and the ability of the Enlarged Group to realise the anticipated financial benefits and synergies from combining the respective businesses.

In particular, some of the key integration challenges of combining the businesses include consolidation and co-ordinating services and operations, retaining key contracts, maintaining relationships with landlords and key suppliers, harmonising business cultures, consolidating infrastructure, procedures, processes, facilities, systems and policies and compensation structures, realising synergies, and retaining key employees of the Enlarged Group. If the Enlarged Group does not properly manage these challenges, they may affect the effective running of the business in the ordinary course and the efficient allocation, including redeployment, of resources in the Enlarged Group.

While the Directors believe that the financial benefits and synergies of the Acquisition and the costs associated with the Acquisition have been reasonably estimated, unanticipated events or liabilities may arise or become apparent which result in a delay or reduction in the benefits anticipated to be derived from the Acquisition, or in costs significantly in excess of those estimated. No assurance can be given that the integration process will deliver all or substantially all of the expected procurement savings, operational costs or other benefits or realise any such benefits within the assumed timeframe, or that the costs to integrate and achieve the financial benefits and synergies will not be higher than anticipated.

Further, the demands that the integration process may have on management time could result in diversion of the attention of the WH Smith Group's and the MRG Group's management and employees from ongoing operations, pursuing other potential business opportunities and may cause a delay in other projects currently contemplated by each group.

To the extent that the Enlarged Group is unable to efficiently integrate the operations of the WH Smith Group and the MRG Group, realise anticipated financial benefits and synergies, retain key personnel or landlord relationships and avoid unforeseen costs or delay, there may be a material adverse effect on the business, financial condition, results of operations and/or prospects of the Enlarged Group.

1.3 The uncertainties about the effects of the Acquisition could have a material adverse effect on the WH Smith Group, the MRG Group, and, if the Acquisition completes, the Enlarged Group

Uncertainty about the effects of the Acquisition, including effects on employees, partners, customers, landlords, vendors, distributors and suppliers, may have a material adverse effect on the business, results of operations and financial condition of the WH Smith Group, the MRG Group and, if the Acquisition completes, the Enlarged Group. These uncertainties could cause parties that have business or other relationships with the WH Smith Group or the MRG Group to defer the completion of other transactions or other decisions concerning the business of the WH Smith Group, the MRG Group and, if the Acquisition completes, the Enlarged Group or to seek to change their terms of business. In addition, prior to and following Completion, there is also a risk that some current and prospective employees may experience uncertainty about their future roles within the Enlarged Group, which may adversely affect the WH Smith Group's, the MRG Group's and, following Completion, the Enlarged Group's ability to retain or recruit key managers and other employees.

1.4 *The additional debt incurred in connection with the Acquisition may affect the Enlarged Group's business flexibility in the longer term*

Following Completion, the Enlarged Group will have substantially increased debt compared to the WH Smith Group's historical level of debt. The WH Smith Group has entered into a £200 million New Debt Facility in connection with the Acquisition. This increased level of debt could have the effect, among other things, of reducing the Enlarged Group's flexibility to respond to changing business and economic conditions. The amount of cash required to service the Enlarged Group's increased debt levels following Completion and thus the demands on the Enlarged Group's cash resources will be greater than the amount of cash flows required to service the WH Smith Group's debt and pay dividends prior to the Acquisition. In addition, the termination date for the New Debt Facility is 17 October 2020, which may be extended until 17 October 2021. There is no guarantee that WH Smith would be able to replace, supplement or refinance the New Debt Facility at all or on terms acceptable to WH Smith. WH Smith's ability to obtain financing to refinance the New Debt Facility in the longer term will be subject to various factors, including market conditions, operating performance and the WH Smith Group's credit rating.

The increased levels of debt following Completion could, in the longer term, also reduce funds available for the Enlarged Group's investments in capital expenditures, share repurchases and other activities and may create competitive disadvantages for the Enlarged Group relative to other companies with lower debt levels.

1.5 *The Company may be required to pay a termination fee in certain circumstances*

The SPA permits the Board to change its recommendation that Shareholders vote in favour of the Resolution (a "**WH Smith Recommendation Change**") only if, following a material change of circumstances that was not known or reasonably expected to be known by the Board on the date of the SPA, the Board has determined in good faith, after consultation with its independent financial advisers and outside legal counsel, that the failure to take such action would constitute a violation of the Board's duties under applicable law.

MRG Acquisition Holdings is permitted to terminate the SPA if, among others, the Board were to make a WH Smith Recommendation Change, a General Meeting is not held by 31 January 2020 or the Resolution is not approved by 31 January 2020. If MRG Acquisition Holdings were to terminate the Merger Agreement in such circumstances, WH Smith USA would be required to pay MRG Acquisition Holdings a reverse termination fee of US$10 million.

2. Material risks relating to the WH Smith Group which will be impacted by the Acquisition

2.1 *As a result of the Acquisition, the Enlarged Group will have increased exposure to economic, political and market conditions in the United States*

The MRG Group currently operates all of its 170 stores in North America (169 stores in the United States and one store in Canada), with an additional 36 awarded stores expected to open in the United States between 2020 and 2024. The Enlarged Group will therefore be exposed to additional local economic, political and market risks as a result of its increased presence in the United States following Completion.

The majority of the MRG Group's revenue is generated through the sale of news, gifts, souvenirs and convenience products. The sales and profitability of the MRG Group and, following Completion, the Enlarged Group, will be impacted by the prevailing general economic conditions in the United States including interest rates, currency exchange rates, political uncertainty, inflation, lack of real wage growth, unemployment levels, availability of customer credit, taxation rates, stock market performance and consumer confidence, which can all have an adverse impact on household disposal income and customer spending decisions. If, for example, economic conditions in the United States decline, customers may choose to reduce their spending on news, gifts, souvenirs and convenience products or migrate to competitors who offer lower priced products.

MRG's stores are located in airports, tourist and resort locations, with 111 stores in tourist and resort locations, primarily in Las Vegas, NV. As a result, a reduction in retail activity or leisure spending generally, or a reduction in the number of consumers visiting tourist or resort locations where MRG stores are located, for example as a result of prevailing economic conditions and any corresponding impact on household disposable income and consumer spending decisions, may impact the amount spent in MRG stores in these locations. In addition, any change to gaming and betting laws, regulations or licencing requirements in the United States at a national or state level, or the approach to the application or enforcement of such laws and regulations may impact the expected growth, local capital investment and visitor numbers in Las Vegas, which in turn may impact sales and profitability of MRG stores.

MRG currently has 59 airport stores and the majority of its awarded stores (33 out of 36 awarded stores) are in airports. Therefore, the sales and profitability of MRG's stores are dependent on the number of passengers travelling by air in, or to and from, the United States. Soft or weakening economic conditions in the United States or elsewhere, a reduction in air travel as a result of environmental concerns or a reduction in tourism, business or air travel generally may cause a reduction in air passenger numbers or cause air passengers to reduce the amount they choose to spend at airport concessions. In addition, MRG's offering is expected to complement WH Smith's existing International Travel business offering, in particular its InMotion stores which are located in US airports, and create opportunities for further expansion in the US airport travel retail market. If the US airport travel retail market or the expected long-term passenger growth does not increase as expected, this will impact the WH Smith Group's, the MRG Group's and, following Completion, the Enlarged Group's growth strategy in the United States.

Any combination of these adverse changes to economic, political or market conditions could have a material adverse effect on the WH Smith Group's, the MRG Group's or, following Completion, the Enlarged Group's business, prospects, financial condition and/or results of operations.

2.2 *As a result of the Acquisition, the Enlarged Group will operate in highly competitive sectors in the United States and their competitors' actions could lead to a loss in their market shares*

The US travel retail industry is highly competitive, particularly with respect to merchandise selection and quality, design, store location, size and design, inventory, price, brand and customer service. The MRG Group's, the WH Smith Group International Travel business' and, following Completion, the Enlarged Group's growth strategy in the United States is dependent on being able to compete effectively in the US travel retail industry and to provide a distinctive retail offering to consumers as well as to show differentiation from competitors for landlords to win new tender opportunities.

The MRG Group's, the WH Smith Group's and, following Completion, the Enlarged Group's competitors may adopt aggressive minimum rental guarantee proposals, expand or decrease their store portfolios, undertake more extensive marketing and advertising campaigns or sell products which may be more appealing to customers. Some competitors may have greater market presence and brand recognition, or may be perceived to offer better value products at the same or lower prices. In addition, some competitors may have greater financial resources, greater purchasing economies of scale or lower cost bases, and ability to offer higher minimum rental guarantees, any of which may give them a competitive advantage.

If the MRG Group, the WH Smith Group or, following Completion, the Enlarged Group, is not able to compete successfully in the US travel retail market, this may have a material adverse effect on their business, prospects, financial condition and/or results of operations.

2.3 *The growth plans of the WH Smith Group, the MRG Group and, following Completion, the Enlarged Group may not succeed*

The Directors consider the acquisition of MRG to be an important step in growing the international footprint of the WH Smith Group's Travel business, and to significantly accelerate its presence in the United States. The WH Smith Group's International Travel business is expected to be a key driver of future growth and value creation for Shareholders and through the acquisition of MRG, the Directors believe WH Smith will be well positioned to compete for new multi-unit tender opportunities across multiple categories in the US airport travel retail market.

The MRG Group currently has a pipeline of 36 awarded stores that are expected to open between 2020 and 2024. The opening of the awarded stores may be subject to delay and the time and costs required to complete new store openings may be higher than expected due to many factors, including delays in obtaining the requisite licences, permits and approvals from relevant authorities, disputes with contractors, contractor defaults, accidents, shortages of labour and materials, changes in market conditions and other unforeseen problems and circumstances. Any of these factors may lead to delays in the opening of awarded stores and/or result in costs exceeding those originally budgeted, which may in turn have a material adverse effect on the MRG Group's and, following Completion, the Enlarged Group's business, prospects, financial condition and/or results of operations.

In addition, the growth plans of the MRG Group and the WH Smith Group's International Travel business and, following Completion, the Enlarged Group, are dependent on the MRG Group's and, following Completion, the Enlarged Group's ability to renew existing store leases and concessions and to win new store awards in the United States (the majority of which are offered by way of competitive tender) on acceptable commercial terms. If the MRG Group fails to win new concessions on acceptable commercial terms or at all, or the Enlarged Group fails to compete for new multi-unit tender opportunities as expected across the US airport travel retail market, this may in turn impact their ability to achieve their growth plans which may have a material adverse effect on their business, prospects, financial condition and/or results of operations.

2.4 ***As a result of the Acquisition, the Enlarged Group will have increased exposure to business interruption in the travel market and the resort and tourist industry in the United States***

An act of terrorism or war, an outbreak of a pandemic disease or a natural disaster in the United States or elsewhere or could reduce the number of customers visiting airport, tourist or resort locations where MRG stores are located. Terrorist or other extreme incidents in airports or resort or tourist locations, for example the mass shooting in Las Vegas in October 2017, can impact visitor numbers and lead to a reduction in customer traffic. In the past WH Smith Group's Travel business has been particularly impacted by geopolitical events such as major terrorist attacks. Terrorist incidents anywhere in the world, or the threat of such incidents, can significantly harm public confidence in air transport and reduce airport customer traffic. Closure of travel routes, both planned and unplanned, such as the disruption caused by natural disasters or weather-related events, may also have a material effect on business. In addition, the outbreak of disease could have an adverse impact on consumer preferences and spending. A widespread outbreak of disease, or any customer perception to that effect, in the United States or elsewhere could have an adverse effect on customers and on the economy in general, with a consequential material adverse effect on the demand for products sold by the MRG Group, the WH Smith Group and, following Completion, the Enlarged Group. Any of the foregoing could have a material adverse effect on the WH Smith Group's, the MRG Group's or, following Completion, the Enlarged Group's business, prospects, financial condition and/or results of operations.

2.5 ***As a result of the Acquisition, the Enlarged Group will have increased exposure to the effects of exchange rate fluctuations that could affect profitability and the ability to repay indebtedness***

Following Completion the Enlarged Group's reporting and functional currency will be the same as the WH Smith Group's current reporting currency, the pound sterling. As a result of the Acquisition, the Enlarged Group will have increased exposure to changes in currency rates between US dollars and pound sterling, including on the translation of the net assets of the MRG Group into the WH Smith Group's reporting currency. The Enlarged Group will also be exposed to currency changes from the translation of profits earned in the MRG Group; these exposures are not normally hedged. Volatility and/or increased costs in the Enlarged Group's business due to transactional foreign exchange rate exposures may adversely affect its financial performance. Significant fluctuations in foreign currency exchange rates could have an adverse impact on the Enlarged Group's results of operations and financial conditions.

2.6 *The Enlarged Group's success will depend on retaining and attracting key personnel*

Following Completion, the Enlarged Group may not be able to retain key personnel as there can be no assurance that individuals employed by the MRG Group or the WH Smith Group will remain employed by the Enlarged Group. The success of the Enlarged Group will depend on the ability and experience of its management and employees, and retaining and recruiting key personnel. The loss of any management or key personnel, or a delay in replacing a departed employee, may result in the loss of local market knowledge and longstanding relationships with landlords and suppliers which may have a material adverse effect on the Enlarged Group's business, prospects, financial condition and/or results of operations.

PART III

HISTORICAL FINANCIAL INFORMATION OF THE MRG GROUP

The following Part III contains the historical financial information of the MRG Group.

The historical financial information of the MRG Group presented in Section A of Part III of this document has been prepared for the purpose of the Listing Rules and in accordance with the IFRS accounting policies of the Company.

The MRG Group prepares its financial statements for the financial year ending on the nearest Sunday to 31 December of a given calendar year.

The following historical financial information of the MRG Group is therefore presented in Section A of Part III of this document:

- Historical financial information for the 52 weeks ended 1 January 2017
- Historical financial information for the 52 weeks ended 31 December 2017
- Historical financial information for the 52 weeks ended 30 December 2018

Section A: Historical financial information of the MRG Group

Consolidated income statement

(US$ millions)	Note	For the year ended 30 December 2018	31 December 2017	1 January 2017
Continuing operations				
Revenue	*2*	176.9	161.2	155.0
Group operating profit	*2, 3*	15.8	14.4	13.9
Finance costs	*5*	(12.2)	(10.9)	(11.2)
Profit before tax		3.6	3.5	2.7
Income tax (expense)/benefit	*6*	0.1	(0.3)	(1.1)
Profit for the year		3.7	3.2	1.6
Profit attributable to equity holders of the parent		2.1	2.3	1.0
Profit attributable to non-controlling interests		1.6	0.9	0.6

Consolidated statement of comprehensive income

(US$ millions)	Note	For the year ended 30 December 2018	31 December 2017	1 January 2017
Profit for the year		3.7	3.2	1.6
Other comprehensive (loss)/income:				
Items that will not be reclassified subsequently to the income statement:		—	—	—
Items that may be reclassified subsequently to the income statement:				
Exchange differences on translation of foreign operations		(0.5)	0.2	(0.1)
Other comprehensive income (loss) for the year, net of tax		(0.5)	0.2	(0.1)
Total comprehensive income for the year		3.2	3.4	1.5
Attributable to equity-holders of the parent		1.6	2.5	0.9
Attributable to non-controlling interests		1.6	0.9	0.6

Consolidated balance sheet

(US$ millions)	Note	As at 30 December 2018	31 December 2017	1 January 2017	4 January 2016
Non-current assets					
Goodwill	*7*	195.9	195.9	197.4	197.4
Other intangible assets		—	—	0.1	0.1
Property, plant and equipment	*8*	37.4	33.7	33.5	36.5
Deferred tax assets	*12*	—	—	—	—
Trade and other receivables	*9*	0.8	0.7	0.7	0.6
		234.1	230.3	231.7	234.6
Current assets					
Inventories		17.7	14.7	14.5	13.8
Trade and other receivables	*9*	7.4	4.8	2.8	2.9
Cash and cash equivalents		4.6	3.6	6.5	4.2
		29.7	23.1	23.8	20.9
Total assets		263.8	253.4	255.5	255.5
Current liabilities					
Trade and other payables	*10*	(19.1)	(12.7)	(14.3)	(14.8)
Other borrowings	*13, 16*	(0.7)	(0.4)	(0.7)	(0.7)
Current tax liabilities		(0.9)	(0.3)	(0.1)	—
		(20.7)	(13.4)	(15.1)	(15.5)
Non-current liabilities					
Long-term provisions		(0.3)	(0.3)	(0.3)	(0.3)
Other borrowings	*13, 16*	(134.6)	(133.3)	(136.8)	(138.7)
Deferred tax liabilities	*12*	(0.8)	(1.8)	(1.9)	(1.0)
Other non-current liabilities	*11*	(3.2)	(2.6)	(3.1)	(3.3)
		(138.9)	(138.0)	(142.1)	(143.3)
Total liabilities		(159.6)	(151.4)	(157.2)	(158.8)
Total net assets		104.2	102.0	98.3	96.7
Shareholders' equity					
Ordinary Shares and Share Premium		(109.3)	(109.0)	(108.8)	(108.6)
Translation reserve		0.4	(0.1)	0.1	—
Non-controlling interest		(2.6)	(1.5)	(0.5)	—
Deficit		7.3	8.6	10.9	11.9
Total equity		(104.2)	(102.0)	(98.3)	(96.7)

Consolidated cash flow statement

(US$ millions)	Note	For the year ended 30 December 2018	31 December 2017	1 January 2017
Operating activities				
Cash generated from operating activities	*15*	24.6	20.5	22.5
Interest paid		(11.3)	(9.6)	(10.1)
Net cash inflow from operating activities		13.3	10.9	12.4
Investing activities				
Purchase of property, plant and equipment		(12.2)	(9.3)	(7.4)
Net cash (outflow) from investing activities		(12.2)	(9.3)	(7.4)
Financing activities				
Proceeds from borrowings	*13, 16*	9.5	8.0	8.5
Principal payments on borrowings	*13, 16*	(8.6)	(12.5)	(11.1)
Capital contribution/(distribution)—non-controlling interest		(0.5)	0.1	(0.1)
Net cash inflow/(outflow) from financing activities		0.4	(4.4)	(2.7)
Net increase/(decrease) in cash and cash equivalents in year		1.5	(2.8)	2.3
Opening cash and cash equivalents		3.6	6.5	4.2
Effect of movements in foreign exchange rates		(0.5)	(0.1)	—
Closing cash and cash equivalents		4.6	3.6	6.5

Consolidated statement of changes in equity

(US$ millions)	Ordinary shares and share premium	Translation reserves	Non-controlling interest	Deficit	Total equity
Balance at 1 January 2018	109.0	0.1	1.5	(8.6)	102.0
Profit for the year	—	—	1.6	2.1	3.7
Other comprehensive income/(expense):					
Exchange differences on translation of foreign operations	—	(0.5)	—	—	(0.5)
Total comprehensive income/(loss) for the year		(0.5)	1.6	2.1	3.2
Equity Contribution/Distribution	—	—	(0.5)	(0.8)	(1.3)
Recognition of share-based payments	0.3	—	—	—	0.3
Current tax on share-based payments	—	—	—	—	—
Deferred tax on share-based payments	—	—	—	—	—
Balance at 30 December 2018	109.3	(0.4)	2.6	(7.3)	104.2

(US$ millions)	Ordinary shares and share premium	Translation reserves	Non-controlling interest	Deficit	Total equity
Balance at 2 January 2017	108.8	(0.1)	0.5	(10.9)	98.3
Profit for the year	—	—	0.9	2.3	3.2
Other comprehensive income/(expense):					
Exchange differences on translation of foreign operations	—	0.2	—	—	0.2
Total comprehensive income for the year	—	0.2	0.9	2.3	3.4
Equity Contribution/Distribution	—	—	0.1	—	0.1
Recognition of share-based payments	0.2	—	—	—	0.2
Current tax on share-based payments	—	—	—	—	—
Deferred tax on share-based payments	—	—	—	—	—
Balance at 31 December 2017	109.0	0.1	1.5	(8.6)	102.0

(US$ millions)	Ordinary shares and share premium	Translation reserves	Non-controlling interest	Deficit	Total equity
Balance at 4 January 2016	108.6	—	—	(11.9)	96.7
Profit for the year	—	—	0.6	1.0	1.6
Other comprehensive income/(expense):					
Exchange differences on translation of foreign operations	—	(0.1)	—	—	(0.1)
Total comprehensive income/loss for the year	—	(0.1)	0.6	1.0	1.5
Equity Contribution/Distribution	—	—	(0.1)	—	(0.1)
Recognition of share-based payments	0.2	—	—	—	0.2
Current tax on share-based payments	—	—	—	—	—
Deferred tax on share-based payments	—	—	—	—	—
Balance at 1 January 2017	108.8	(0.1)	0.5	(10.9)	98.3

Notes to the historical financial information

Corporate Information

Marshall Retail Group Holding Company, Inc., through its wholly owned subsidiaries, MRG Holdings Corp., The Marshall Retail Group, LLC and The Marshall Retail Group, Canada (collectively in this Part III, "**MRG**" or the "**MRG Group**"), operates retail clothing, gift logo and sundry stores primarily located in airports and resorts in the United States and Canada. MRG had 169, 154 and 152 stores in operation at 30 December 2018, 31 December 2017 and 1 January 2017, respectively. As such, MRG is subject to economic conditions and trends similar to the tourism industry in those areas.

MRG is headquartered at 3755 W Sunset Road, Las Vegas, Nevada, the United States of America.

The immediate parent company of MRG is MRG Acquisition Holdings LLC.

1. Accounting policies

(a) *Basis of preparation*

The historical financial information has been prepared in accordance with the requirements of the Listing Rules, on a basis consistent with the accounting policies adopted in the latest annual financial statements of WH Smith. This historical financial information has been prepared in accordance with IFRS and interpretations issued by the IFRS Interpretations Committee ("**IFRS IC**") applicable to companies reporting under IFRS. The historical financial information complies with IFRS as adopted for use in the European Union (''**EU**'') and therefore complies with Article 4 of the EU International Accounting Standards ("**IAS**") Regulation. For periods up to and including the year ended 30 December 2018, MRG prepared its financial statements in accordance with US GAAP.

Accordingly, MRG has prepared historical financial information which complies with IFRS applicable for periods ending on or after 1 January 2017, as described in the summary of significant accounting policies. In preparing this historical financial information, MRG's opening balance sheet has been prepared as at 4 January 2016, MRG's date of transition to IFRS.

The historical financial information is presented in US Dollars (''**US$**'') and all values stated in millions of US Dollars (''**US$ millions**'') except where otherwise indicated.

The historical financial information has been prepared on an historical cost basis, except certain share-based payments that have been measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Throughout these notes to the consolidated historical financial information, fiscal years ended 30 December 2018, 31 December 2017 and 1 January 2017 are referred to as 2018, 2017, and 2016, respectively.

MRG uses a "Retail" calendar. MRG's fiscal year ends on the Sunday closest to the last day of December. The fiscal years ended 30 December 2018, 31 December 2017 and 1 January 2017 all contained 52 weeks.

Going concern

The Directors have, at the time of approving the historical financial information, a reasonable expectation that MRG has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the historical financial information.

The acquisition of MRG and the repayment of MRG's existing debt is expected to be financed through a combination of new equity and bank debt by WH Smith. MRG's outstanding debt comprises a US$140 million term loan with US$134.3 million principal outstanding (the "**MRG Term Loan**"), and utilisations drawn against the US$15 million revolving credit facility of US$2.0 million as at 30 December 2018 (see Note 13 and Note 16). The MRG Term Loan and revolving credit facility contain a change in control provision which require repayment of the facilities upon a change in control of MRG.

Application of IFRS 1

The historical financial information is the first MRG has prepared in accordance with IFRS as adopted for use in the European Union. MRG applied IFRS 1, "First time adoption of IFRS", in preparing this historical financial information.

For periods up to and including the year ended 30 December 2018, MRG prepared its financial statements in accordance with US GAAP. See Note 21 for a description of IFRS adjustments and reconciliations from US GAAP to IFRS.

The accounting policies set out herein have been applied in preparing the historical financial information as at and for the years ended 30 December 2018, 31 December 2017 and 1 January 2017 and the opening IFRS Balance Sheet as at 4 January 2016.

In preparing this historical financial information in accordance with IFRS, MRG has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS, as set out in IFRS 1.

Optional exemptions to full retrospective application elected by the MRG Group

IFRS 1 allows first-time adopters certain exemptions from the general requirements contained in IFRS. MRG has applied the following exemptions. All other available optional exemptions were not applicable to MRG.

Business Combinations

IFRS 3, Business Combinations has not been applied to either acquisitions of subsidiaries that are considered businesses under IFRS, or acquisitions of interests in associates and joint ventures that occurred before 4 January 2016. Use of this exemption means that the US GAAP carrying amounts of assets and liabilities, that are required to be recognised under IFRS, are their deemed cost at the date of the acquisition. After the date of the acquisition, measurement is in accordance with IFRS. Assets and liabilities that do not qualify for recognition under IFRS are excluded from the opening IFRS balance sheet. MRG did not recognise or exclude any previously recognised amounts as a result of IFRS recognition requirements.

IFRS 1 also requires that the US GAAP carrying amount of goodwill be used in the opening IFRS Balance Sheet (apart from any adjustments for goodwill impairment and recognition or derecognition of intangible assets). In accordance with IFRS 1, MRG has tested goodwill for impairment at the date of transition to IFRS. No goodwill impairment was deemed necessary at 4 January 2016. Business combinations through 3 January 2016 were accounted for under US GAAP. MRG also has not applied IAS 21, "The Effects of Changes in Foreign Exchange Rates" retrospectively to fair value adjustments and goodwill from business combinations that occurred before the date of transition to IFRS. Such fair value adjustments and goodwill are treated as assets and liabilities of the parent rather than as assets and liabilities of the acquiree. Therefore, those assets and liabilities are already expressed in the functional currency of the parent or are non-monetary foreign currency items and no further translation differences occur.

Share based compensation

IFRS 2 Share-based Payment has not been applied to equity instruments in share-based payment transactions that were granted on or before 7 November 2002, nor has it been applied to equity instruments granted after 7 November 2002 that vested before 4 January 2016. For any cash-settled share-based payment transactions, MRG has not applied IFRS 2 to liabilities that were settled before 4 January 2016.

Exception for deemed cost

Property and equipment were carried at cost in the balance sheet prepared in accordance with US GAAP at 3 January 2016. IFRS 1 allows first time adopters to use a previous valuation of an item of property and equipment at or before the transition date to IFRS as the deemed cost for IFRS, provided that the property and equipment has been depreciated in accordance with IAS 16 from that previous measurement date forward. MRG has elected to apply the deemed cost exemption.

Exemption for leases

MRG has applied the transitional provisions in IFRIC 4 Determining whether an Arrangement Contains a Lease and has assessed all arrangements based upon the conditions in place as at the date of transition.

Exemption for Cumulative Translation Reserve

Cumulative currency translation differences for all foreign operations are deemed to be zero as at 4 January 2016.

Mandatory exceptions to full retrospective application applied by the MRG Group

IFRS 1 requires first-time adopters to apply certain exceptions from the general requirements contained in IFRS. MRG has applied the following exceptions. All other mandatory exceptions not referenced were not applicable to MRG.

Estimates

Estimates under IFRS at 4 January 2016 and the years ended 2018, 2017 and 2016 were consistent with estimates made as at the same dates under US GAAP. There is no evidence that those estimates were made in error.

Derecognition of financial assets and financial liabilities

Financial assets and financial liabilities derecognised before 4 January 2016 were not re-recognised under IFRS. The application of this exception did not have a significant impact on this historical financial information.

Non-controlling interests

At the transition date, MRG applied the requirements of IFRS 10, Consolidated Financial Statements, to MRG's non-controlling interests.

Standards issued but not yet effective

IFRS 16 "Leases"

IFRS 16, 'Leases' is effective for accounting periods beginning on or after 1 January 2019. This standard will supersede the existing lease guidance IAS 17 and the related interpretation. MRG intends to adopt this standard for the fiscal year starting 30 December 2019.

IFRS 16 sets out the principles of the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model as the distinction between operating and finance leases is removed. The only exceptions are short-term and low-value leases.

At the commencement date of a lease, a lessee will recognise a lease liability for future lease payments and an asset (right-of-use asset) representing the right to use the underlying asset during the lease term. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

MRG anticipates that the adoption of IFRS 16 will have a material impact on the income statement and balance sheet including depreciation, rental expense, interest expense, a right of use asset, and lease liabilities. MRG is currently evaluating the impact of adoption on its historical financial information.

Accounting convention

The historical financial information is prepared using the historical cost basis of accounting, except for certain share-based payments that have been measured at fair value. The financial information is rounded to the nearest million, except where otherwise indicated. The principal accounting policies, which have been applied consistently throughout all years presented, are set out below.

Basis of consolidation

MRG's historical financial information includes the results of the parent undertakings and all of their subsidiary undertakings. The results of businesses acquired during the period are included from the effective date of acquisition. Where necessary, adjustments are made to the historical financial information of subsidiaries to bring the accounting policies used into line with those used by MRG. All intercompany transactions, balances and unrealised gains on transactions between MRG companies are eliminated.

(b) ***Revenue***

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and supersedes all previous revenue recognition requirements of IFRS. IFRS 15 applies to all entities and all contracts with customers who provide goods or services in the ordinary course of business with limited exceptions, for example: leases, insurance contracts and financial instruments.

Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

MRG performed a detailed impact assessment, identifying all sources of revenue and determined all of MRG's revenue relates to contracts with customers. MRG analysed the accounting requirements under IFRS 15 for each contract type and determined that substantially all of its contracts are subject to a single performance obligation between MRG and the customer and that the performance obligation is satisfied by the receipt of goods by the customer, which occurs at the point of payment from the customer to MRG. A reserve is provided for anticipated returns based on historical experience, however, due to the nature of MRG's sales, the reserve is immaterial to MRG. MRG does not apply significant judgment in determining the timing of satisfaction of its performance obligations or the transaction price allocated to those performance obligations, as substantially all of MRG's revenue is derived from in-store purchases of products by customers, where revenue is recognised when goods are transferred to the customer at the point of payment.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for the sale of goods to customers (which is the most significant revenue stream) at Airport, Resort and Tourist Retail locations, net of estimated sales returns and sales taxes. A reserve is provided for anticipated returns based on historical experience.

Revenue is recognised when performance obligations have been met and control of the goods have transferred to the customer. The majority of MRG's sales are for standalone products made direct to customers at standard prices in store, where there is a single performance obligation. Transfer of control of goods is deemed to be when goods are delivered to the customer which occurs at the point of sale.

Revenue on in-store sales of goods is recognised when goods are sold to the customer. Revenue excludes discounts, estimated returns, and promotions. Refund accruals are estimated based on accumulated experience as this method best predicts the amounts of variable consideration to which MRG will be entitled, based on historical results.

(c) ***Fair value measurement***

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, MRG considers various methods, including market, income and cost approaches, and utilises certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market-corroborated or generally unobservable inputs. MRG utilises valuation techniques that maximize the use of observable inputs and minimise the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, MRG is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.

Level 2: Observable inputs other than Level 1, including quoted prices for similar assets or liabilities, quoted prices in less active markets or other observable inputs that can be corroborated by observable market data. Level 2 also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data.

Level 3: Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for non-binding single dealer quotes not corroborated by observable market data.

While MRG believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. During the years ended 30 December 2018, 31 December 2017, and 1 January 2017 there were no changes to MRG's valuation techniques that had, or are expected to have, a material impact on its financial position or income statement.

(d) *Retirement benefit costs*

Payments relating to the MRG defined contribution plan are recognised as an expense in the income statement as they fall due. The cost charged to income for MRG's defined contribution plan amounted to US$0.2 million for the year ended 30 December 2018 (2017: US$0.2 million, 2016: US$0.2 million) and are recorded in Other pension costs, see Note 3.

(e) *Leasing*

All leases are classified as operating leases. Leases are classified as finance leases if the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.

Rentals payable and receivable under operating leases, including above-market leases, are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term. MRG has a number of lease arrangements in which the rent payable is contingent on revenue. Contingent rentals payable, based on store revenues, are accrued in line with revenues generated.

The MRG Group records the non-current deferred rent in the balance sheet within other non-current liabilities and the current portion within trade and other payables—accruals and deferred income balance. Cash contributions from landlords are not discounted.

(f) *Intangible assets*

Goodwill

Goodwill represents the excess of the fair value of purchase consideration over the net fair value of identifiable assets and liabilities acquired.

Goodwill is recognised as an asset at cost and subsequently measured at cost less accumulated impairment. For the purposes of impairment testing, goodwill is allocated to those CGUs that have benefited from the acquisition. Each store is considered to be a CGU. Goodwill is allocated to the group of CGUs (which are General Merchandise, Apparel and Harley-Davidson), as this is the lowest level at which management monitors goodwill. The carrying value of goodwill is reviewed for impairment at least annually or where there is an indication that goodwill may be impaired. If the recoverable amount of the group of cash-generating units is less than its carrying amount, then the impairment loss is allocated first to reduce the carrying amount of the goodwill allocated to the units and then to the other assets of the units on a pro-rata basis. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit and loss on disposal.

Other intangible assets

Other intangible assets include lease acquisition costs amortised over the related lease term using the straight-line method. These intangibles are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged so as to write off the costs of assets over their estimated useful lives, using the straight-line method, and is recorded in Distribution costs.

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.

(g) *Property, plant and equipment*

Property, plant and equipment assets are carried at cost less accumulated depreciation and any recognised impairment in value. Depreciation is charged so as to write off the costs of assets over their estimated useful lives, using the straight-line method, with the annual rates applicable to the principal categories being:

Short-term leasehold	— shorter of the lease period and the estimated remaining economic life of 4-10 years
Fixtures and fittings	— five to seven years
Equipment and vehicles	— up to ten years

The residual values of property, plant and equipment are re-assessed on an annual basis.

At each balance sheet date, property, plant and equipment is reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of expected future pre-tax cash flows of the relevant cash-generating unit or fair value, less costs to sell, if higher. Any impairment in value is charged to the income statement in the period in which it occurs.

(h) *Non-controlling interests*

Subsidiaries are fully consolidated from the date on which control is transferred to MRG. If facts and circumstances indicate that there are changes to one or more of the elements of control, a reassessment is performed to determine if control still exists. Subsidiaries are de-consolidated from the date that control ceases. Non-controlling interests in the net assets of MRG are identified separately from shareholders' equity. Non-controlling interests consist of the amount of those interests at the date of the original acquisition and the non-controlling share of changes in equity since the date of acquisition.

(i) *Inventories*

Inventories comprise finished 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 is calculated to include, where applicable, duties, handling, transport and directly attributable costs bringing the inventories to their present location and condition. Net realisable value is based on estimated normal selling prices less further costs expected to be incurred in selling and distribution.

Provisions are made for obsolescence, markdown and shrinkage.

(j) *Provisions*

Provisions are recognised in the balance sheet when MRG 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. Where the effect is material, the provision is determined by discounting the expected future cash flows at a pre-tax rate which reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Long-term provisions primarily include required dilapidation costs in relation to leased properties.

(k) ***Foreign currencies***

Items included in the financial statements of each of MRG's subsidiaries are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated historical financial information is presented in US Dollars (USD), which is MRG's functional and presentation currency.

Transactions denominated in foreign currencies are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the period.

On consolidation, the assets and liabilities of MRG's foreign operations are translated into USD at exchange rates prevailing on the balance sheet date. Income and expense items are translated into USD at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to MRG's translation reserve.

(l) ***Taxation***

The tax expense included in the income statement comprises current and deferred tax.

Current tax is the expected tax payable based on the taxable profit for the period, using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the historical financial information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

Current and deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the current or deferred tax is also recognised directly in equity.

(m) ***Financial instruments***

Trade and other receivables

Trade receivables are measured at fair value at initial recognition, do not carry any interest and are subsequently measured at amortised cost using the effective interest rate method, less loss allowance. MRG applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

The MRG Group recognises loss allowances for expected credit losses ("**ECLs**") on financial assets measured at amortised cost. These are always measured at an amount equal to lifetime ECL. The maximum period considered when estimating ECLs is the maximum contractual period over which the MRG Group is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the MRG Group considers reasonable and supportable information that is relevant and available without undue cost or effort.

This includes both qualitative and quantitative information and analysis, based on the MRG Group's historical experience and informed credit assessment and forward-looking information.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the MRG Group determines that the debtor does not have the assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the MRG Group's procedures for recovery of amounts due.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and credit card receivables due from its credit card processors.

MRG considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Included in Cash and cash equivalents are credit card receivables due from its credit card processors as the cash proceeds from the credit card receivables are generally received within 24 to 72 hours of processing.

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 MRG after deducting all of its liabilities.

Bank borrowings

Interest-bearing bank loans 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 recorded as the proceeds received, net of direct issue costs. 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.

Trade payables

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

Equity instruments

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

(n) *Share schemes*

Share-based payments

Employees of MRG receive part of their remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity settled transactions).

Equity settled share-based payments are measured at fair value at the date of grant. The fair value is calculated using an appropriate option pricing model. The fair value is expensed to the income statement on a straight-line basis over the vesting period, based on MRG's estimate of shares that will eventually vest.

(o) *Critical accounting judgements and key sources of estimation uncertainty*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. Significant items subject to such assumptions and estimates include the useful economic life of assets; the fair values of goodwill; and the valuation of property, plant and equipment subject to impairment assessment. Actual results could differ from these estimates and any subsequent changes are accounted for with an effect on income at the time such updated information becomes available.

The most critical accounting judgements and sources of estimation uncertainty in determining the financial condition and results of MRG are those requiring the greatest degree of subjective or complex judgement. These relate to the valuation of goodwill and the assessment of property, plant and equipment assets with potential indicators of impairment.

Sources of estimation uncertainty

Goodwill and property, plant and equipment impairment reviews

MRG is required to review goodwill annually to determine if any impairment has occurred. Value-in-use calculations require the use of estimates in relation to suitable long-term growth rates and discount rates that are applied to future cash flows. Further information in respect of MRG's goodwill is included in Note 7.

Property, plant and equipment and intangible assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, significant judgment is required in assessing the future performance of the store to determine whether the carrying amount is recoverable. The recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates of forecasted store performance based upon expected sales growth rates. Further information in respect of MRG's property, plant and equipment is included in Note 8.

2. MRG Group operating profit

(US$ millions)	For the year ended 30 December 2018 Total	31 December 2017 Total	1 January 2017 Total
Revenue	176.9	161.2	155.0
Cost of sales	(65.6)	(59.8)	(58.5)
Gross profit	111.3	101.4	96.5
Distribution costs[1]	(77.8)	(72.2)	(69.9)
Administrative expenses	(17.9)	(15.3)	(14.9)
Other income[2]	0.2	0.5	2.2
Group operating profit	15.8	14.4	13.9

(1) During the year there was US$0.7 million (2017: US$0.3 million, 2016: US$0.4 million) of impairment charges for property, plant and equipment included in distribution costs.

(2) Other income is profit attributable to early lease termination payments received from landlords for tenants to exit leases prior to the end of the original lease.

(US$ millions)	For the year ended 30 December 2018	31 December 2017	1 January 2017
Cost of inventories recognised as an expense	65.0	59.2	57.6
Write-down of inventories in the year	0.6	0.6	0.9
Depreciation and amounts written off property, plant and equipment and amortisation and amounts written off intangible assets	9.8	9.2	9.8
Net operating lease charges			
—land and buildings	34.9	30.6	29.5
—equipment and vehicles	0.1	0.1	—
Other occupancy costs	2.2	1.7	1.9
Staff costs (Note 3)	38.8	36.0	34.1
Auditors' remuneration	0.2	0.1	0.2

Included in Administrative expenses is the auditors' remuneration, including expenses for audit and non-audit services, payable to MRG's auditors RSM US LLP and its associates as set out above.

3. Staff costs and employees

(a) *Staff costs*

The aggregate remuneration of employees was:

(US$ millions)	For the year ended 30 December 2018	31 December 2017	1 January 2017
Wages and salaries	35.2	32.6	30.8
Social security costs	3.1	3.0	2.9
Other pension costs	0.2	0.2	0.2
Share-based payments	0.3	0.2	0.2
Total Group	38.8	36.0	34.1

Amounts recognised as an expense under MRG's defined contribution plan are included in the other pensions cost line.

(b) *Employee numbers*

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

(# of employees)	For the year ended 30 December 2018	31 December 2017	1 January 2017
Total retailing	957	926	944
Support functions	163	164	161
Total Group	1,120	1,090	1,105

4. Operating lease commitments

Amounts recognised in operating profit:

(US$ millions)	For the year ended 30 December 2018	31 December 2017	1 January 2017
Minimum lease payments	23.3	18.8	18.8
Contingent rent payments	6.7	7.2	6.1
Property taxes, maintenance, and insurance	5.0	4.7	4.6
Total rent paid	35.0	30.7	29.5
Sublease rentals received on operating leases	—	—	—
Net operating lease charges	35.0	30.7	29.5

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

(US$ millions)	As at 30 December 2018 Total	31 December 2017 Total	1 January 2017 Total
Within one year	25.6	21.4	18.4
Within two to five years	71.5	60.4	53.6
In more than five years	24.1	20.1	11.4
	121.2	101.9	83.4

The MRG Group leases various properties under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. Contingent rents are payable on certain store leases based on store revenue. For those leases that are turnover-related leases, the annual net lease commitment is calculated using the minimum lease liability. All leases related to the rental of land and buildings. The average remaining lease length across the MRG Group is 4 years.

5. Finance costs

(US$ millions)	For the year ended 30 December 2018	31 December 2017	1 January 2017
Interest payable on borrowings	(12.2)	(10.9)	(11.2)

6. Income tax expense

(US$ millions)	For the year ended 30 December 2018	31 December 2017	1 January 2017
Tax on profit	0.8	0.4	0.1
Standard rate of corporation tax 21% (2017: 34%, 2016: 34%)			
Adjustment in respect of prior year corporation tax	0.1	—	—
Total current tax charge	0.9	0.4	0.1
Deferred tax—current year	(0.7)	(0.6)	0.7
Deferred tax—prior year	(0.3)	0.5	0.3
Tax on profit	(0.1)	0.3	1.1

Reconciliation of the taxation charge

The effective tax rate, was –0.3% (2017: 9.8%, 2016: 38.2%). The US Federal corporation tax rate was reduced from 34% to 21% effective 1 January 2018.

(US$ millions)	For the year ended 30 December 2018	31 December 2017	1 January 2017
Profit before tax	3.6	3.5	2.7
Tax on profit at standard rate of corporation tax 21% (2017: 34%, 2016: 34%)	0.8	1.2	1.0
State income taxes	0.1	0.1	0.1
Foreign rate differential	0.1	(0.1)	—
Goodwill impairment	—	0.5	—
Non-controlling interest	(0.4)	(0.3)	(0.2)
Foreign tax credit	(0.2)	(0.4)	(0.1)
Impact of tax reform	(0.3)	(1.3)	—
Prior year adjustments	(0.2)	0.5	0.2
Other	—	0.1	0.1
Total income tax (benefit)/expense	(0.1)	0.3	1.1

Management evaluated MRG's tax positions and concluded that the MRG Group had taken no uncertain tax positions that require adjustment to the historical financial information.

7. Goodwill

(US$ millions)	
Cost	
At 1 January 2018	207.8
At 30 December 2018	**207.8**
Accumulated impairment	
At 1 January 2018	(11.9)
At 30 December 2018	**(11.9)**
Net book value at 30 December 2018	**195.9**
Cost	
At 2 January 2017	207.8
At 31 December 2017	**207.8**
Accumulated impairment	
At 2 January 2017	(10.4)
Impairment charge	(1.5)
At 31 December 2017	**(11.9)**
Net book value at 31 December 2017	**195.9**
Cost	
At 4 January 2016	207.8
At 1 January 2017	**207.8**
Accumulated impairment	
At 4 January 2016	(10.4)
At 1 January 2017	**(10.4)**
Net book value at 1 January 2017	**197.4**

The carrying value of goodwill is allocated to groups of CGUs by store type as follows:

	As at			
(US$ millions)	30 December 2018	31 December 2017	1 January 2017	4 January 2016
Store type				
General Merchandise	107.9	107.9	107.9	107.9
Apparel	80.2	80.2	81.7	81.7
Harley-Davidson	7.8	7.8	7.8	7.8
Total	195.9	195.9	197.4	197.4

Goodwill has been tested for impairment by comparing the carrying amount of each group of CGUs, including goodwill, with the recoverable amount determined from value-in-use calculations. CGUs are grouped in a manner that is consistent with our operating segments, as this reflects the lowest level at which goodwill in monitored. For 2018, the recoverable amount was determined based on the proposed acquisition price of MRG. For 2017 and 2016, the recoverable amount was determined from value-in-use calculations. Management has determined that no impairment was necessary for the current financial year (2017: US$1.5 million, 2016 US$nil). The impairment in 2017 resulted from a decline in sales against forecast.

All goodwill relates to prior business combinations. Each CGU is sensitive to movements in the same key assumptions. The key assumptions on which the forecasted 5-year cash flows of the CGUs are based include long term growth rates and discount rates utilised in the value-in-use calculations.

The values assigned to each of these assumptions were determined based on the extrapolation of historical trends within MRG and external information on expected future trends in the retail industry.

These cash flows are extrapolated based on estimated long-term growth rates of 4%. The rate used to discount the forecast pre-tax cash flows was 11.1% (2017) and 11.7% (2016).

A sensitivity analysis has been performed in assessing the recoverable amount of Goodwill using various reasonably possible scenarios based on recent market movements. This has been based upon a change in the key assumption which is the proposed acquisition price of MRG for 2018. The 2018 sensitivity analysis showed that no reasonably possible change in the proposed acquisition price of MRG would lead to an impairment. For 2017, an increase in the discount rate of up to 1%, or a decrease in the long-term growth rate of 1%, would lead to further impairment in the Apparel CGU. For 2016, an increase in the discount rate of up to 1% or a decrease in the long-term growth rate of 1% would not lead to an impairment in any of the CGUs.

8. Property, plant and equipment

(US$ millions)	Construction in progress	Leasehold improvements	Furniture, Fixtures and Equipment	Total
Cost or valuation:				
At 1 January 2018	0.5	33.8	22.7	57.0
Additions	6.0	5.2	2.3	13.5
Disposals and impairment charges	—	(2.1)	(0.4)	(2.5)
Transfers	(3.1)	2.4	0.7	—
Foreign exchange differences	—	—	—	—
At 30 December 2018	3.4	39.3	25.3	68.0
Accumulated depreciation:				
At 1 January 2018	—	13.7	9.6	23.3
Depreciation charge	—	5.0	4.1	9.1
Disposals and impairment charges	—	(1.5)	(0.3)	(1.8)
Foreign exchange differences	—	—	—	—
At 30 December 2018	—	17.2	13.4	30.6
Net book value at 30 December 2018	3.4	22.1	11.9	37.4
Cost or valuation:				
At 2 January 2017	0.2	34.8	16.4	51.4
Additions	4.8	1.3	3.1	9.2
Disposals and impairment charges	—	(3.1)	(0.5)	(3.6)
Transfers	(4.5)	0.8	3.7	—
Foreign exchange differences	—	—	—	—
At 31 December 2017	0.5	33.8	22.7	57.0
Accumulated depreciation:				
At 2 January 2017	—	11.4	6.5	17.9
Depreciation charge	—	5.3	3.5	8.8
Disposals and impairment charges	—	(3.0)	(0.4)	(3.4)
Foreign exchange differences	—	—	—	—
At 31 December 2017	—	13.7	9.6	23.3
Net book value at 31 December 2017	0.5	20.1	13.1	33.7
Cost or valuation:				
At 4 January 2016	1.5	32.0	13.00	46.5
Additions	1.9	3.1	2.6	7.6
Disposals and impairment charges	—	(2.7)	—	(2.7)
Transfers	(3.2)	2.4	0.8	—
Foreign exchange differences	—	—	—	—
At 1 January 2017	0.2	34.8	16.4	51.4
Accumulated depreciation:				
At 4 January 2016	—	6.8	3.2	10.0
Depreciation charge	—	6.2	3.3	9.5
Disposals and impairment charges	—	(1.6)	—	(1.6)
Foreign exchange differences	—	—	—	—
At 1 January 2017	—	11.4	6.5	17.9
Net book value at 1 January 2017	0.2	23.4	9.9	33.5

During the year ended 30 December 2018 there was US$0.7 million (2017: US$0.3 million, 2016: US$0.4 million) of impairment charges on property, plant, and equipment included in the disposals and impairment line above. These charges are reflected as distribution costs within Note 2.

The recoverable amount of property, plant and equipment assets is determined based on value-in-use calculations prepared on the basis of management's assumptions. The most significant assumption is the future performance of each store which is based on sales growth estimates. These cash flows are extrapolated based on forecasted sales growth rates between 2 to 3%. Management performed a sensitivity analysis by decreasing the forecasted sales growth for each store by one percentage point and determined this decrease had an immaterial impact on estimated store performance and that no additional stores would have been determined to have indicators of impairment requiring the store assets be assessed for impairment charges.

The MRG Group's revolving credit facility and MRG Term Loan are secured by substantially all of the MRG Group's assets.

9. Trade and other receivables

	As at			
(US$ millions)	**30 December 2018**	**31 December 2017**	**1 January 2017**	**4 January 2016**
Current debtors				
Trade debtors	2.5	1.8	1.4	1.6
Prepayments and accrued income	4.9	3.0	1.4	1.3
	7.4	4.8	2.8	2.9
Non-current debtors				
Other debtors	0.8	0.7	0.7	0.6
Total trade and other receivables	8.2	5.5	3.5	3.5

Included within non-current debtors, other debtors, are security deposits for future store leases.

The aging of MRG's current trade and other receivables is as follows:

	As at			
(US$ millions)	**30 December 2018**	**31 December 2017**	**1 January 2017**	**4 January 2016**
Trade and other receivables gross	2.6	1.9	1.6	1.8
Expected credit losses	(0.1)	(0.1)	(0.2)	(0.2)
Trade and other receivables net	2.5	1.8	1.4	1.6
Of which:				
Amounts neither impaired nor past due on the reporting date	1.5	1.0	1.1	1.2
Amounts past due but not impaired:				
Less than one month old	0.8	0.3	0.3	0.3
Between one and three months old	0.2	0.4	—	0.1
Between three and six months old	—	0.1	—	—
Between six months and one year old	—	—	—	—
Trade and other receivables net carrying amount	2.5	1.8	1.4	1.6

An allowance has been made for lifetime expected credit losses from sales at 30 December 2018 of US$0.1 million (2017: US$0.1 million, 2016: US$0.2 million). This expected credit loss reflects the application of MRG's provisioning policy in respect of bad and doubtful debts and is based upon the difference between the receivable value and the estimated net collectible amount. MRG establishes its provision for bad and doubtful debts by reference to past default experience, an informed credit assessment and forward-looking information.

No trade and other receivables that would have been past due or impaired were renegotiated during the year. No interest is charged on the receivables balance. The other classes within trade and other receivables do not include impaired assets. MRG does not hold collateral over these balances. The directors consider that the carrying amount of trade and other receivables approximates their fair value.

10. Trade and other payables—current

(US$ millions)	As at 30 December 2018	31 December 2017	1 January 2017	4 January 2016
Trade payables	7.0	6.0	6.9	7.5
Other tax and social security	1.7	0.9	2.0	0.9
Other creditors	1.2	—	0.5	0.4
Accruals and deferred income	9.2	5.8	4.9	6.0
	19.1	12.7	14.3	14.8

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The directors consider that the carrying amount of trade and other payables approximates their fair value.

Included in accruals and deferred income is accrued interest of US$3.0 million for 2018 (2017: US$2.6 million, 2016: US$2.0 million) and above-market lease liability of US$0.6 million for 2018 (2017: US$0.7 million, 2016: US$0.7 million).

11. Other non-current liabilities

(US$ millions)	As at 30 December 2018	31 December 2017	1 January 2017	4 January 2016
Above-market leases	0.6	1.3	2.0	2.7
Deferred rent	2.6	1.3	1.1	0.6
Total Other non-current liabilities	3.2	2.6	3.1	3.3

Above-market leases were recorded as part of the acquisition accounting for a past transaction. Above-market leases are amortised using the straight-line method as a reduction to rent expense over the terms of the related leases, which expire at various dates through April 2022.

Deferred rent relates to differences between cash rent payments and straight-line rent expense arising from free rent periods and tenant improvement allowances provided by landlords at certain leased locations.

12. Deferred tax

The following are the major deferred tax liabilities and assets recognised by MRG and movements thereon during the current and prior years.

(US$ millions)	Accelerated tax depreciation	Leases	Share-based payments	Intangibles (including goodwill)	Net operating losses	Short-term timing differences	Total
At 1 January 2018	(1.3)	0.9	—	(2.2)	0.4	0.4	(1.8)
Credited/(charged) to income	1.1	0.3	—	(0.4)	(0.4)	0.4	1.0
Charged to equity	—	—	—	—	—	—	—
At 30 December 2018	(0.2)	1.2	—	(2.6)	—	0.8	(0.8)
At 2 January 2017	(2.8)	1.6	—	(2.2)	1.6	(0.1)	(1.9)
Credited/(charged) to income	1.5	(0.7)	—	—	(1.2)	0.5	0.1
Charged to equity	—	—	—	—	—	—	—
At 31 December 2017	(1.3)	0.9	—	(2.2)	0.4	0.4	(1.8)
At 4 January 2016	(3.6)	1.6	—	(0.7)	2.1	(0.4)	(1.0)
Credited/ (charged) to income	0.8	—	—	(1.5)	(0.5)	0.3	(0.9)
Charged to equity	—	—	—	—	—	—	—
At 1 January 2017	(2.8)	1.6	—	(2.2)	1.6	(0.1)	(1.9)

Changes to the US Federal corporation tax rates reduced the tax rate to 21% from 34%. The effects of these changes are included in this historical financial information and resulted in an impact of US$1.6m upon deferred tax assets and liabilities as of 31 December 2017.

All deferred tax assets and liabilities are expected to be recognised. The following is an analysis of the deferred tax balances (after offset) for financial reporting purposes:

	As at			
(US$ millions)	**30 December 2018**	**31 December 2017**	**1 January 2017**	**4 January 2016**
Deferred tax liabilities (non-current liabilities)	(1.1)	(2.1)	(2.4)	(1.5)
Deferred tax assets	0.3	0.3	0.5	0.5
	(0.8)	(1.8)	(1.9)	(1.0)

13. Borrowings

Movements in borrowings can be analysed as follows:

(US$ millions)	**1 January 2018**	**Cash flow**	**Non cash**	**Currency translation**	**30 December 2018**
Borrowings					
—MRG Term Loan	(133.7)	1.1	(0.7)	—	(133.3)
—Revolving credit facility	—	(2.0)	—	—	(2.0)
Total borrowings	(133.7)	(0.9)	(0.7)	—	(135.3)

(US$ millions)	**2 January 2017**	**Cash flow**	**Non-cash**	**Currency translation**	**31 December 2017**
Borrowings					
—MRG Term Loan	(134.7)	1.7	(0.7)	—	(133.7)
—Revolving credit facility	(2.8)	2.8	—	—	0.0
Total borrowings	(137.5)	4.5	(0.7)	—	(133.7)

(US$ millions)	**4 January 2016**	**Cash flow**	**Non-cash**	**Currency translation**	**1 January 2017**
Borrowings					
—MRG Term Loan	(135.4)	1.4	(0.7)	—	(134.7)
—Revolving credit facility	(4.0)	1.2	—	—	(2.8)
Total borrowings	(139.4)	2.6	(0.7)	—	(137.5)

Non-cash movements in the above movements in borrowings represent the amortisation of finance charges related to the Group's finance facilities.

The term loan facility was issued in 2014 and is available until August 2020. The loan principle is due in quarterly instalments of US$0.4 million continuing through to July 2020 with the remaining payment due in August 2020.

The revolving credit facility was issued in 2014 and matures in August 2020.

The delayed draw term loan facility was issued in 2014 and is available until August 2020 (the "**MRG Delayed Draw Term Loan**"). The loan principle is due in quarterly instalments equal to 0.25% of the initial principal with remaining balance due in August 2020. No funds have been drawn under the MRG Delayed Draw Term Loan.

Interest on the MRG Term Loan and revolving credit facility is due at an Index Rate plus 4.75%. The Index Rate is the greater of (i) the higher of the Federal Funds Rate plus 50 basis points or The Wall Street Journal Prime Rate, or (ii) the three-month LIBOR Rate (not to be less than 1.00%) plus 1.25%. MRG may elect, upon notification to the lenders, to accrue and pay interest at the applicable LIBOR Rate plus 6.0%.

Undrawn facilities

(US$ millions)	As at 30 December 2018	31 December 2017	1 January 2017	4 January 2016
Undrawn facilities				
MRG Delayed Draw Term Loan	10.0	10.0	10.0	10.0
Revolving credit facility	13.0	15.0	12.2	11.0
	23.0	25.0	22.2	21.0
Total borrowings				
Current portion of total borrowings	(0.7)	(0.4)	(0.7)	(0.7)
Non-current portion of total borrowings	(134.6)	(133.3)	(136.8)	(138.7)
Total borrowings	(135.3)	(133.7)	(137.5)	(139.4)

14. Contingent liabilities and capital commitments

Contracts placed for future capital expenditure approved by the directors but not provided for in this consolidated financial information amount to US$52.6 million.

The MRG Group utilises irrevocable standby letters of credit to support certain agreements into which it has entered. The aggregate amount available under these letters of credit was approximately US$1.0 million as at 30 December 2018 (2017: US$0.1 million, 2016: US$0.1 million), all of which expire during 2019.

15. Cash generated from operating activities

(US$ millions)	For the year ended 30 December 2018	31 December 2017	1 January 2017
Operating profit for the year	15.8	14.4	13.9
Depreciation of property, plant and equipment	9.1	8.8	9.4
Impairment of property, plant and equipment	0.7	0.3	1.1
Impairment of goodwill	—	1.5	—
Amortisation of other intangible assets	—	0.1	—
Above-market lease amortisation	(0.7)	(0.7)	(0.7)
Share-based payments	0.3	0.2	0.2
(Increase) in inventories	(3.1)	(0.2)	(0.8)
(Increase) in receivables	(3.0)	(2.0)	(0.1)
Increase/(decrease) in payables	6.1	(1.8)	(0.4)
Income taxes paid	(0.6)	(0.1)	(0.1)
Cash generated from operating activities	24.6	20.5	22.5

16. Financial instruments

Categories of financial instruments

(US$ millions)	Carrying value as at 30 December 2018	31 December 2017	1 January 2017	4 January 2016
Financial assets				
Receivables (including cash and cash equivalents)[(1)]	7.8	6.1	8.4	6.3
Financial liabilities				
Amortised cost[(2)]	(155.4)	(148.1)	(154.4)	(157.4)

(1) Included within receivables are trade and other receivables (excluding prepayments) and cash and cash equivalents and are reported at amortised cost.

(2) Included within amortised cost are trade and other payables and other borrowings.

Comparison of carrying values and fair values

There were no material differences between the carrying value of financial assets and their fair values as at the balance sheet date.

The MRG Term Loan and revolving credit facility had a carrying value of US$133.3 million and US$2.0 million respectively. As at 30 December 2018, the fair value of the MRG Term Loan and revolving credit facility approximated the carrying value (IFRS 13 Level 2 input).

Risk management

MRG's treasury function seeks to reduce exposures to interest rate, foreign exchange and other financial risks, and to ensure liquidity is available to meet the foreseeable needs of MRG and to invest cash assets safely and profitably. MRG does not engage in speculative trading in financial instruments and transacts only in relation to underlying business requirements.

Capital risk

MRG's objectives with respect to managing capital are to safeguard MRG's ability to continue as a going concern, in order to optimise returns to shareholders and benefits for other stakeholders, through an appropriate balance of debt and equity funding. Refer to Note 13 for the value of MRG's borrowings and refer to MRG's statement of changes in equity for the value of the equity.

In managing MRG's capital levels, the directors regularly monitor the level of debt in the business, the working capital requirements, forecast financing and investing cash flows. Based on this analysis, the directors determine the appropriate return to investors while ensuring sufficient capital is retained in the business to meet its strategic objectives.

As at 30 December 2018, MRG has in place a US$15 million revolving credit facility, US$10 million MRG Delayed Draw Term Loan (as defined above), and US$140 million term loan. The loans are secured by substantially all of MRG's assets and require MRG to comply with certain financial covenants which were met throughout the period. The covenants are tested quarterly, and primarily consist of limits on the ratio of fixed interest charges to operating cash flows, and of outstanding borrowings to earnings. At 30 December 2018, the outstanding principle balances of the revolving credit facility and term loan were US$2.0 million and US$134.3 million, respectively. There were no borrowings outstanding on the MRG Delayed Draw Term Loan.

Liquidity risk

MRG manages its exposure to liquidity risk by reviewing the cash resources required to meet its business objectives through both short and long-term cash flow forecasts. MRG has a US$15 million revolving credit facility which is available to be drawn for general corporate purposes including working capital.

The table below shows the maturity analysis of the undiscounted remaining contractual cash flows of MRG's financial liabilities including interest on the outstanding borrowings based on the applicable interest rate at the end of each fiscal year:

30 December 2018 (US$ millions)	Due within 1 year	Due between 1 and 2 years	Due between 2 and 5 years	Due over 5 years	Total
Revolving credit facility and MRG Term Loan	13.3	142.7	—	—	156.0
Trade and other payables	19.1	—	—	—	19.1
Total cash flows	32.4	142.7	—	—	175.1

31 December 2017 (US$ millions)	Due within 1 year	Due between 1 and 2 years	Due between 2 and 5 years	Due over 5 years	Total
Revolving credit facility and MRG Term Loan	11.0	11.2	139.3	—	161.5
Trade and other payables	12.6	—	—	—	12.6
Total cash flows	23.6	11.2	139.3	—	174.1

1 January 2017 (US$ millions)	Due within 1 year	Due between 1 and 2 years	Due between 2 and 5 years	Due over 5 years	Total
Revolving credit facility and MRG Term Loan	11.1	11.0	152.9	—	175.0
Trade and other payables	14.3	—	—	—	14.3
Total cash flows	25.4	11.0	152.9	—	189.3

4 January 2016 (US$ millions)	Due within 1 year	Due between 1 and 2 years	Due between 2 and 5 years	Due over 5 years	Total
Revolving credit facility and MRG Term Loan	11.4	11.3	22.3	143.2	188.2
Trade and other payables	14.8	—	—	—	14.8
Total cash flows	26.2	11.3	22.3	143.2	203.0

Credit risk

Credit risk is the risk that a counterparty may default on their obligation to MRG in relation to lending and other financial activities. MRG's principal financial assets are trade and other receivables and bank balances and cash.

MRG has credit risk attributable to its trade and other receivables, including a number of sale or return contracts with suppliers. The amounts included in the balance sheet are net of allowances for expected credit losses. MRG applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of cash flows.

MRG has low retail credit risk due to the transactions being principally of a high volume, low-value and short maturity. At 30 December 2018, trade and other receivables included US$1.7 million due from customers who operate in the gaming industry (31 December 2017 US$1.8 million, 1 January 2017 US$1.2 million). MRG had no other significant concentration of credit risk, with the exposure spread over a large number of counterparties and customers.

The credit risk on liquid funds is considered to be low as cash balances are held at various financial institutions. At various times throughout the year, MRG has maintained cash balances at financial institutions in excess of federally insured limits. MRG has experienced no losses in such accounts.

The carrying amount of financial assets recorded in the historical financial information represents MRG's maximum exposure to credit risk. MRG does not hold collateral over any of these financial assets.

Interest rate risk

MRG is exposed to cash flow interest rate risk on the revolving credit facility and MRG Term Loan.

At 30 December 2018, MRG had an outstanding balance of US$2.0 million (2017: US$nil, 2016: US$2.8 million) on its revolving credit facility and outstanding principle of US$134.3 million (2017: US$135.5 million, 2016: US$137.2 million) on the MRG Term Loan.

The interest rate on the MRG Term Loan as at 30 December 2018 was 8.80% (2017: 7.34%, 2016: 7.00%). The interest rate on the revolving credit facility as at 30 December 2018 was 10.25% (2017: 9.00%, 2016: 7.00%). MRG has not entered into interest rate derivatives to mitigate this risk.

Foreign currency risk

Foreign exchange rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in foreign exchange rates. MRG's foreign currency exposures are principally to the Canadian dollar.

MRG's Canadian dollar exposure is principally operational and arises mainly through the operation of one retail store in Canada. MRG does not use derivatives to hedge balance sheet and profit and loss translation exposure.

Sensitivity analysis as at 30 December 2018

Financial instruments affected by market risks include borrowings and deposits. The following analysis, required by IFRS 7, 'Financial Instruments': Disclosures, is intended to illustrate the sensitivity to changes in market variables, being interest rates.

The following assumptions were made in calculating the sensitivity analysis:

- MRG debt remains constant, reflecting the positions at 30 December 2018, 31 December 2017 and 1 January 2017, respectively.
- The analysis considers the interest rates in effect at 30 December 2018, 31 December 2017 and 1 January 2017, respectively.

As a consequence of the above assumptions, the analysis relates to the position at those dates and is not necessarily representative of the years then ended.

The above assumptions are made when illustrating the effect on the MRG Group's income statement and equity given reasonable movements in interest rates before the effect of tax. MRG considers a reasonable interest rate movement in LIBOR/base rate to be 1%, based on interest rate history.

Based upon the assumptions described above, the following table shows the illustrative effect on MRG's profit before tax assuming a 1% increase or decrease in interest rates:

	Impact to Profit/loss before tax		
(US$ millions)	**30 December 2018**	**31 December 2017**	**1 January 2017**
LIBOR/base rate interest rates 1% increase	(1.9)	(1.1)	(0.7)
LIBOR/base rate interest rates 1% decrease	0.8	1.6	2.1

MRG's exposure to foreign currency changes for currencies is not considered material.

17. Share-based payments

Summary of movements in share-based awards:

	As at			
(Number of shares)	**30 December 2018**	**31 December 2017**	**1 January 2017**	**4 January 2016**
Outstanding at the beginning of the year	1,311,018	1,311,018	1,623,164	1,623,164
Granted in the year	861,689	—	—	—
Forfeited in the year	(46,840)	—	(312,146)	—
Outstanding at the end of the year	2,125,867	1,311,018	1,311,018	1,623,164

MRG Incentive Plan

Under the terms of the MRG Incentive Plan, employees, consultants, or other service providers to MRG may be granted time vesting or conditional awards to acquire shares in MRG Acquisition Holdings LLC which may be subject to time vesting, EBITDA performance-based vesting, liquidity vesting, or any combination thereof. Time vesting units vest rateably over five years. EBITDA performance-based vesting units vest when MRG achieves certain annual EBITDA targets. Liquidity vesting units vest in the event of the sale of MRG at an amount that achieves certain returns on investment. Awards granted to employees vest only as long as employment continues.

Share awards granted

The fair values of the awards granted in the year ended 30 December 2018 were measured using a Black Scholes model. None were granted in the years ended 31 December 2017 and 1 January 2017. The input into the Black Scholes model was as follows:

	2018
Share price	US$12.28
Expected volatility (%)	22%
Expected life (years)	2
Risk free rate (%)	2%
Dividend yield (%)	0%
Forfeiture rate (%)	0%
Weighted average fair value of awards (US$)	US$0.36

The estimated fair value of the awards granted in the year 2018 is US$0.3 million.

The achievement of the conditions contained in the liquidity vesting units is not considered probable; therefore, no compensation cost has been accrued for those units. The fair value of each time vesting and EBITDA vesting award was estimated at the date of grant using the Black-Scholes option valuation model that utilises the assumptions included in the table above. The expected term assumption reflects the period for which MRG believes the units will remain outstanding. The expected term assumption is based on the average of the vesting period and contractual life of the award. MRG estimated the volatility of the MRG units based on the volatility of publicly traded peer companies over the expected life of the award. The risk-free rate reflects the U.S. Treasury yield curve for a similar expected life instrument in effect at the time of the grant. The assumption for dividends is based on the preference of the Series A units.

18. Related party transactions

Transactions between businesses within MRG which are related parties have been eliminated on consolidation and are not disclosed in this note.

In August 2014, MRG entered into a corporate development and administrative agreement that requires it to pay Brentwood Associates Private Equity V, L.P., owner of MRG, a consulting fee. As MRG's adjusted EBITDA increases, the consulting fee owed to Brentwood Associates Private Equity V, L.P. increases up to a maximum of US$0.7 million annually. The consulting fee for the years ended 2018, 2017, and 2016 was US$0.5 million and is included in administrative expenses within group operating profit.

MRG has a lease for one store location with a related party. Total related party rent expense for the year ended 2018 was US$0.3 million (2017: US$0.3 million, 2016 US$0.2 million).

Remuneration of key management personnel

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

	For the year ended		
(US$ millions)	30 December 2018	31 December 2017	1 January 2017
Short-term employee benefits	1.1	1.6	1.8
Post-employment benefits	—	—	—
Share-based payments	0.1	0.1	0.2
	1.2	1.7	2.0

There are no other transactions with directors.

19. Events after the balance sheet date

On 17 October 2019, WH Smith announced that it had signed an agreement to acquire the entire issued and to be issued share capital of MRG for US$400 million on a cash and debt-free basis.

20. Subsidiary companies and non-controlling interests

The subsidiary companies included within the historical financial information are disclosed below.

(Name)	Country of incorporation / registration	Registered address	Class of shares	Percentage owned %	Percentage controlled %	Principal activity
Held directly by MRG:						
MRG Holdings Corp	USA	1	Ordinary	100	100	Holding Company
Held indirectly:						
The Marshall Retail Group, LLC .	USA	1	Ordinary	100	100	Holding Company
The Marshall Retail Group, Canada	Canada	3	Ordinary	100	100	Holding Company
MRG Baltimore (BWI), LLC	USA	1	Ordinary	70	100	Retailing
MRG Dallas II, LLC	USA	1	Ordinary	65	100	Retailing
MRG Denver, LLC	USA	1	Ordinary	75	100	Retailing
MRG Los Angeles LLC	USA	1	Ordinary	70	100	Retailing
MRG LaGuardia II, LLC	USA	1	Ordinary	80	100	Retailing
MRG LaGuardia, LLC	USA	1	Ordinary	80	100	Retailing
MRG Nashville, LLC	USA	1	Ordinary	80	100	Retailing
MRG Philadelphia, LLC	USA	2	Ordinary	65	100	Retailing
MRG Raleigh Terminal 1 LLC . .	USA	1	Ordinary	55	100	Retailing
MRG Raleigh Terminal 2 LLC . .	USA	1	Ordinary	85	100	Retailing
MRG RDU T2, LLC	USA	1	Ordinary	80	100	Retailing
MRG Regan LLC	USA	1	Ordinary	70	100	Retailing
MRG Sacramento, LLC	USA	1	Ordinary	90	100	Retailing
MRG San Francisco Terminal 1, LLC	USA	1	Ordinary	80	100	Retailing
MRG San Francisco, LLC	USA	1	Ordinary	80	100	Retailing
MRG Washington (DCA), LLC . .	USA	2	Ordinary	75	100	Retailing
MRG Washington (IAD), LLC . . .	USA	2	Ordinary	75	100	Retailing

Registered addresses

1 3755 W. Sunset Road, Suite A, Las Vegas, NV 89118, United States of America

2 5385 Wynn Road, Las Vegas, NV 89118, United States of America

3 2200 HSBC Building, 885 West Georgia Street, Vancouver, BC V6C 3E8, Canada

21. First time adoption of IFRS

These financial statements are the first MRG has prepared in accordance with IFRS. For periods up to and including the year ended 30 December 2018, MRG prepared its financial statements in accordance with US GAAP. In preparing the financial statements, MRG's opening consolidated balance sheet was prepared as at 4 January 2016, MRG's date of transition to IFRS. This note explains the principal adjustments made by MRG in restating its US GAAP financial statements, including the consolidated balance sheet as at 4 January 2016, 1 January 2017, 31 December 2017 and 30 December 2018, and the consolidated income statement and statement of comprehensive income for the years ended 1 January 2017, 31 December 2017 and 30 December 2018.

Reconciliation of the consolidated balance sheet as at 4 January 2016 (date of transition to IFRS):

(US$ millions)	US GAAP	Corrections[1]		Remeasurements[2]		Reclassifications[3]	IFRS
Non-current assets							
Goodwill	197.4	—		—		—	197.4
Other intangible assets	0.7	—		—		(0.6)	0.1
Property, plant and equipment	36.5	—		—		—	36.5
Deferred tax assets	—	—		—		—	—
Trade and other receivables	—	—		—		0.6	0.6
	234.6	—		—		—	234.6
Current assets							
Prepaid income taxes	0.0	—		—		(0.0)	—
Other prepaid expenses and current assets	1.3	—		—		(1.3)	—
Inventories	13.8	—		—		—	13.8
Trade and other receivables	3.0	(1.4)	A	—		1.3	2.9
Cash and cash equivalents	2.8	1.4	A	—		—	4.2
	20.9	—		—		—	20.9
Total assets	255.5	—		—		—	255.5
Current liabilities							
Trade and other payables	(7.5)	(0.3)	B	—		(7.0)	(14.8)
Other borrowings	(0.7)	—		—		—	(0.7)
Current tax liabilities	—	—		—		—	—
Accrued expenses	(6.2)	(0.8)	C	—		7.0	—
	(14.4)	(1.1)		—		—	(15.5)
Non-current liabilities							
Long-term provisions	—	—		—		(0.3)	(0.3)
Other borrowings	(138.7)	—		—		—	(138.7)
Deferred tax liabilities	(0.6)	(0.4)	J	—		—	(1.0)
Other non-current liabilities	—	—		—		(3.3)	(3.3)
Deferred rent	(0.6)	—		—		0.6	—
Asset retirement obligation	(0.3)	—		—		0.3	—
Above-market leases	(3.5)	0.8	C	—		2.7	—
	(143.7)	0.4		—		—	(143.3)
Total liabilities	(158.1)	(0.7)		—		—	(158.8)
Total net assets	97.4	(0.7)		—		—	96.7
Shareholders' equity							
Ordinary Shares and Share Premium	(108.4)	—		(0.2)	K	—	(108.6)
Translation reserve	—	—		—		—	—
Non-controlling interest	—	—		—		—	—
Deficit	11.0	0.7	B, J	0.2	K	—	11.9
Total equity	(97.4)	0.7		—		—	(96.7)

Reconciliation of the consolidated balance sheet as at 1 January 2017:

(US$ millions)	US GAAP	Corrections[1]		Remeasurements[2]		Reclassifications[3]	IFRS
Non-current assets							
Goodwill	183.2	—		14.2	L	—	197.4
Other intangible assets	0.8	—		—		(0.7)	0.1
Property, plant and equipment	33.9	—		(0.4)	M	—	33.5
Deferred tax assets	—	—		—		—	—
Trade and other receivables	—	—		—		0.7	0.7
	217.9	—		13.8		—	231.7
Current assets							
Prepaid income taxes	—	—		—		—	—
Other prepaid expenses and current assets	1.4	—		—		(1.4)	—
Inventories	14.5	—		—		—	14.5
Trade and other receivables	1.4	—		—		1.4	2.8
Cash and cash equivalents	6.5	—		—		—	6.5
	23.8	—		—		—	23.8
Total assets	241.7	—		13.8		—	255.5
Current liabilities							
Trade and other payables	(6.9)	0.6	D	—		(8.0)	(14.3)
Other borrowings	(0.7)	—		—		—	(0.7)
Current tax liabilities	—	—		—		(0.1)	(0.1)
Accrued expenses	(7.4)	(0.7)	C	—		8.1	—
	(15.0)	(0.1)		—		—	(15.1)
Non-current liabilities							
Long-term provisions	—	—		—		(0.3)	(0.3)
Other borrowings	(136.8)	—		—		—	(136.8)
Deferred tax liabilities	(1.5)	(0.5)	J	0.1	J	—	(1.9)
Other non-current liabilities	—	—		—		(3.1)	(3.1)
Deferred rent	(1.1)	—		—		1.1	—
Asset retirement obligation	(0.3)	—		—		0.3	—
Above-market leases	(2.7)	0.7	C	—		2.0	—
	(142.4)	0.2		0.1		—	(142.1)
Total liabilities	(157.4)	0.1		0.1		—	(157.2)
Total net assets	84.3	0.1		13.9		—	98.3
Shareholders' equity							
Ordinary Shares and Share Premium	(108.4)	—		(0.3)	K	(0.1)	(108.8)
Translation reserve	—	—		0.1	K	—	0.1
Non-controlling interest	—	(0.6)	D	—		(0.1)	(0.5)
Deficit	24.1	0.5		(13.7)		—	10.9
Total equity	(84.3)	(0.1)		(13.9)		—	(98.3)

Reconciliation of the consolidated balance sheet as at 31 December 2017:

(US$ millions)	US GAAP	Corrections[(1)]		Remeasurements[(2)]		Reclassifications[(3)]	IFRS
Non-current assets							
Goodwill	183.2	—		12.7	L	—	195.9
Other intangible assets	0.8	—		—		(0.8)	—
Property, plant and equipment	33.7	—		—		—	33.7
Deferred tax assets	—	—		—		—	—
Trade and other receivables	—	—		—		0.7	0.7
	217.7	—		12.7		(0.1)	230.3
Current assets							
Prepaid income taxes	—	—		—		—	—
Other prepaid expenses and current assets	2.9	—		—		(2.9)	—
Inventories	14.7	—		—		—	14.7
Trade and other receivables	1.8	—		—		3.0	4.8
Cash and cash equivalents	3.6	—		—		—	3.6
	23.0	—		—		0.1	23.1
Total assets	240.7	—		12.7		—	253.4
Current liabilities							
Trade and other payables	(6.0)	1.4	D	—		(8.1)	(12.7)
Other borrowings	(0.4)	—		—		—	(0.4)
Current tax liabilities	—	—		—		(0.3)	(0.3)
Accrued expenses	(7.8)	(0.7)	C	—		8.5	—
	(14.2)	0.7		—		0.1	(13.4)
Non-current liabilities							
Long-term provisions	—	—		—		(0.3)	(0.3)
Other borrowings	(133.3)	—		—		—	(133.3)
Deferred tax liabilities	(1.3)	(0.3)	J	(0.3)	J	0.1	(1.8)
Other non-current liabilities	—	—		—		(2.6)	(2.6)
Deferred rent	(1.3)	—		—		1.3	—
Asset retirement obligation	(0.3)	—		—		0.3	—
Above-market leases	(2.0)	0.7	C	—		1.3	—
	(138.2)	0.4		(0.3)		0.1	(138.0)
Total liabilities	(152.4)	1.1		(0.3)		0.2	(151.4)
Total net assets	88.3	1.1		12.4		0.2	102.0
Shareholders' equity							
Ordinary Shares and Share Premium	(108.8)	—		(0.1)	K	(0.1)	(109.0)
Translation reserve	—	—		(0.1)	K	—	(0.1)
Non-controlling interest	—	(1.5)	D	—		—	(1.5)
Deficit	20.5	0.4		(12.2)		(0.1)	8.6
Total equity	(88.3)	(1.1)		(12.4)		(0.2)	(102.0)

Reconciliation of the consolidated balance sheet as at 30 December 2018:

(US$ millions)	US GAAP	Corrections[1]		Remeasurements[2]		Reclassifications[3]	IFRS
Non-current assets							
Goodwill	183.2	—		12.7	L	—	195.9
Other intangible assets	0.8	—		—		(0.8)	—
Property, plant and equipment	37.8	—		(0.4)	M	—	37.4
Deferred tax assets	—	—		—		—	—
Trade and other receivables	—	—		—		0.8	0.8
	221.8	—		12.3		—	234.1
Current assets							
Prepaid income taxes	—	—		—		—	—
Other prepaid expenses and current assets	4.0	—		—		(4.0)	—
Inventories	17.7	—		—		—	17.7
Trade and other receivables	2.5	0.9	E	—		4.0	7.4
Cash and cash equivalents	4.6	—		—		—	4.6
	28.8	0.9		—		—	29.7
Total assets	250.6	0.9		12.3		—	263.8
Current liabilities							
Trade and other payables	(6.9)	(0.9)	E	—		(11.3)	(19.1)
Other borrowings	(0.7)	—		—		—	(0.7)
Current tax liabilities	—	0.4	J	—		(1.3)	(0.9)
Accrued expenses	(11.8)	(0.9)	C, F	—		12.7	—
	(19.4)	(1.4)		—		0.1	(20.7)
Non-current liabilities							
Long-term provisions	—	—		—		(0.3)	(0.3)
Other borrowings	(134.6)	—		—		—	(134.6)
Deferred tax liabilities	(0.3)	(0.3)	J	(0.2)	J	—	(0.8)
Other non-current liabilities	—	—		—		(3.2)	(3.2)
Deferred rent	(3.1)	0.3	F	—		2.8	—
Asset retirement obligation	(0.3)	—		—		0.3	—
Above-market leases	(1.3)	0.6	C	—		0.7	—
	(139.6)	0.6		(0.2)		0.3	(138.9)
Total liabilities	(159.0)	(0.8)		(0.2)		0.4	(159.6)
Total net assets	91.6	0.1		12.1		0.4	104.2
Shareholders' equity							
Ordinary Shares and Share Premium	(109.1)	—		(0.1)	K	(0.1)	(109.3)
Translation reserve	0.7	—		(0.3)	K	—	0.4
Non-controlling interest	(2.6)	—		—		—	(2.6)
Deficit	19.4	0.1		(11.9)		(0.3)	7.3
Total equity	(91.6)	0.1		(12.3)		(0.4)	104.2

Reconciliation of the consolidated income statement and statement of comprehensive income for the year ended 1 January 2017:

(US$ millions)	US GAAP	Corrections[(1)]		Remeasurements[(2)]		Reclassifications[(3)]	IFRS
Continuing Operations							
Revenue	157.4	—		(2.4)	N	—	155.0
Cost of sales	(59.6)	—		—		59.6	—
Selling, general and administrative	(76.7)	0.4	B, D G, H	2.0	M N	74.3	—
Depreciation and amortisation	(9.3)	(0.1)	H, I	—		9.4	—
Impairment of goodwill	(14.2)	—		14.2	L	—	—
Operating costs	—	—		—		(141.1)	(141.1)
MRG Group operating profit / (loss)	**(2.4)**	**0.3**		**13.8**		**2.2**	**13.9**
Finance costs	(10.6)	(0.6)	I	—		—	(11.2)
Financing fee expense	(0.1)	—		—		0.1	—
Other income, net	1.1	1.3	G	—		(2.4)	—
Foreign currency exchange gain / (loss)	—	—		—		—	—
Profit / (loss) before tax	(12.0)	1.0		13.8		(0.1)	2.7
Income tax expense	(1.1)	(0.1)	J	0.1	J	—	(1.1)
Profit / (loss) for the year	(13.1)	0.9		13.9		(0.1)	1.6
Profit / (loss) attributable to equity holders of the parent	(13.1)	0.3		13.9		(0.1)	1.0
Profit attributable to non-controlling interests	—	0.6	D	—		—	0.6

US$ millions	US GAAP	Corrections[(1)]		Remeasurements[(2)]	Reclassifications[(3)]	IFRS
Profit / (loss) for the year						
Other comprehensive (loss) / income:	(13.1)	0.9		13.9	(0.1)	1.6
Items that will not be reclassified subsequently to the income statement:						
Items that may be reclassified subsequently to the income statement:						
Exchange differences on translation of foreign operations	—	—		(0.1)	—	(0.1)
Other comprehensive (loss) for the year, net of tax	—	—		(0.1)	—	(0.1)
Total comprehensive (loss) / income for the year	(13.1)	0.9		13.8	(0.1)	1.5
Attributable to equity holders of the parent	(13.1)	0.3		13.8	(0.1)	0.9
Attributable to non-controlling interests	—	0.6	D	—		0.6

Reconciliation of the consolidated income statement and statement of comprehensive income for the year ended 31 December 2017:

(US$ millions)	US GAAP	Corrections[1]		Remeasurements[2]		Reclassifications[3]	IFRS
Continuing Operations							
Revenue	163.2	—		(2.0)	N	—	161.2
Cost of sales	(60.7)	—		—		60.7	—
Selling, general and administrative	(80.6)	1.9	D, G	2.4	M N	76.3	—
Depreciation and amortisation	(8.9)	—		—		8.9	—
Impairment of goodwill	—	—		(1.5)	L	1.5	—
Operating costs	—	—		—		(146.8)	(146.8)
MRG Group operating profit / (loss)	**13.0**	**1.9**		**(1.1)**		**0.6**	**14.4**
Finance costs	(10.9)	—		—		—	(10.9)
Financing fee expense	—	—		—		—	—
Other income, net	1.7	(1.1)	G	—		(0.6)	—
Foreign currency exchange gain / (loss)	—	—		—		—	—
Profit / (loss) before tax	3.8	0.8		(1.1)		—	3.5
Income tax expense	(0.2)	0.2	J	(0.3)	J	—	(0.3)
Profit / (loss) for the year	3.6	1.0		(1.4)		—	3.2
Profit / (loss) attributable to equity holders of the parent	3.6	0.1		(1.4)		—	2.3
Profit attributable to non-controlling interests	—	0.9	D	—		—	0.9

(US$ millions)	US GAAP	Corrections[(1)]		Remeasurements[(2)]	Reclassifications[(3)]	IFRS
Profit / (loss) for the year						
Other comprehensive (loss) / income:	3.6	1.0		(1.4)	—	3.2
Items that will not be reclassified subsequently to the income statement:						
Items that may be reclassified subsequently to the income statement:						
Exchange differences on translation of foreign operations	—	—		0.2	—	0.2
Other comprehensive (loss) for the year, net of tax	—	—		0.2	—	0.2
Total comprehensive (loss) / income for the year	3.6	1.0		(1.2)	—	3.4
Attributable to equity holders of the parent	3.6	0.1		(1.2)	—	2.5
Attributable to non-controlling interests	—	0.9	D	—		0.9

Reconciliation of the consolidated income statement and statement of comprehensive income for the year ended 30 December 2018:

(US$ millions)	US GAAP	Corrections[1]		Remeasurements[2]		Reclassifications[3]	IFRS
Continuing Operations							
Revenue	179.1	—		(2.2)	N	—	176.9
Cost of sales	(67.0)	—		—		67.0	—
Selling, general and administrative	(87.3)	0.2	G	1.8	M, N	85.3	—
Depreciation and amortisation	(9.1)	—		—		9.1	—
Impairment of goodwill	—	—		—		—	—
Operating costs	—	—		—		(161.1)	(161.1)
MRG Group operating profit / (loss)	**15.7**	**0.2**		**(0.4)**		**0.3**	**15.8**
Finance costs	(12.2)	—		—		—	(12.2)
Financing fee expense	—	—		—		—	—
Other income, net	0.5	(0.2)	G	—		(0.3)	—
Foreign currency exchange gain / (loss)	—	—		—		—	—
Profit / (loss) before tax	4.0	—		(0.4)		—	3.6
Income tax expense	(0.4)	0.4	J	0.1	J	—	0.1
Profit / (loss) for the year	3.6	0.4		(0.3)		—	3.7
Profit / (loss) attributable to equity holders of the parent	2.0	0.4		(0.3)		—	2.1
Profit / (loss) attributable to non-controlling interests	1.6	—		—		—	1.6

(US$ millions)	US GAAP	Corrections(1)	Remeasurements(2)	Reclassifications(3)	IFRS
Profit / (loss) for the year	3.6	0.4	(0.3)	—	3.7
Other comprehensive (loss) / income:					
Items that will not be reclassified subsequently to the income statement:					
Items that may be reclassified subsequently to the income statement:					
Exchange differences on translation of foreign operations	(0.7)	—	0.2	—	(0.5)
Other comprehensive (loss) / income for the year, net of tax	(0.7)	—	0.2	—	(0.5)
Total comprehensive (loss) / income for the year	2.9	0.4	(0.1)	—	3.2
Attributable to equity holders of the parent	1.3	0.4	(0.1)	—	1.6
Attributable to non-controlling interests	1.6	—	—	—	1.6

(1) Certain correction adjustments to previously reported US GAAP amounts have been made to present the consolidated balance sheet as at 4 January 2016, 1 January 2017, 31 December 2017 and 30 December 2018 and the consolidated income statement and the statement of comprehensive income for the years ended 1 January 2017, 31 December 2017 and 30 December 2018 in accordance with IFRS.

(2) Certain remeasurement adjustments have been made to present the consolidated balance sheet as at 4 January 2016, 1 January 2017, 31 December 2017 and 30 December 2018 and the consolidated income statement and the statement of comprehensive income for the years ended 1 January 2017, 31 December 2017 and 30 December 2018 to comply with the adoption of IFRS 1.

(3) Certain reclassification adjustments have been made to present the consolidated balance sheet as at 4 January 2016,1 January 2017, 31 December 2017 and 30 December 2018 and the consolidated income statement and the statement of comprehensive income for the years ended 1 January 2017, 31 December 2017 and 30 December 2018 in accordance with WH Smith's presentation and the significant accounting policies described in Note 1.

The transition from US GAAP to IFRS has not had a material impact on the statement of cash flows.

Description of the effects of the transition to IFRS

Corrections:

(A) *Credit card receivables*—MRG presented credit card receivables as Trade and other receivables as at 4 January 2016. At the date of transition to IFRS, these receivables have been presented as Cash and cash equivalents.

(B) *Paid time off (PTO) accrual*—Under IFRS, an entity recognises expense as employees render services that increase their entitlement to future paid absences. At the date of transition to IFRS, MRG had not recognised an obligation for paid annual leave that had been earned by employees for services rendered in prior periods. Therefore, a liability of US$0.3 million was recognised as at 4 January 2016. This amount has been recorded against opening Deficit.

(C) *Above market lease liability*—Under US GAAP, MRG recognised a liability related to unfavourable lease arrangements as part of a prior period business combination and amortised the liability to rental expense over the remaining terms of the respective leases. Under IFRS, the portion of the liability expected to be amortized over the next twelve months was classified as current on the consolidated balance sheet as at 4 January 2016, 1 January 2017 and 30 December 2018.

(D) *Non-controlling interests*—Prior to 30 December 2018, MRG recognised distributions to non-controlling interests as reductions to profit in the period the distribution was made. MRG changed its accounting policy and began to account for these interests in accordance with Accounting Standards Codification 810 *Consolidation* (ASC 810) as at 30 December 2018. IFRS 10 requires non-controlling interests to be presented in the consolidated balance sheet within equity, separately from the equity of the owners of the parent. Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests in each period. As a result, MRG recognised a reduction to Selling, general and administrative expense of US$0.8 million and US$0.6 million in 2017 and 2016, respectively. These amounts were recorded against Trade and other payables. In addition, profit attributable to non-controlling interest of US$0.9 million and US$0.6 million was recorded in 2017 and 2016, respectively.

(E) *Trade and other payables*—Under US GAAP, MRG recognised debit account balances of US$0.9 million within Trade and other payables as at 30 December 2018. Under IFRS, the debit balances were recognised within Trade and other receivables.

(F) *Deferred rent*—Under US GAAP, MRG recognised a non-current deferred rent liability for the difference between cash rental payments and straight-line rent expense arising from rent free periods and other incentives provided by landlords for certain lease arrangements. Under IFRS, the portion of this liability expected to be settled in the next twelve months was classified as current on the consolidated balance sheet.

(G) *Early termination income*—Under US GAAP, MRG recognised cash received from landlords to exit leases prior to the end of the original lease term as income over the remaining original term of the lease. Under IFRS, the consideration was recognised as a gain within Other income, net, upon receipt.

(H) *Above market lease amortisation*—Under US GAAP, MRG recognised above market lease amortisation of US$0.7 million within Depreciation and amortisation for the year ended 1 January 2017. Under IFRS, the expense was recognised as a credit to rent expense (classified under Selling, general and administrative expense) on the consolidated income statement.

(I) *Amortisation of debt discount*—Under US GAAP, MRG recognised amortisation of debt discount of US$0.6 million within Depreciation and amortisation for the year ended 1 January 2017. Under IFRS, the expense was recognised as an increase to interest expense on the consolidated income statement.

Taxes:

(J) The following notes explain the principal tax adjustments made by MRG in restating financial statements:

Non-controlling interest—For US tax purposes, MRG has several partnerships for which it is the controlling partner. Because the non-controlling interests are considered non-taxable entities, the tax expense recognised should not include the non-controlling tax impact. For the year ended 30 December 2018, under IFRS, an adjustment was recorded to exclude the tax impact related to the non-controlling profits, which resulted in a reduction of the Current income tax liability of US$0.4 million. This amount was recognised against current Income tax expense.

Success-based fees—Under US GAAP, as part of a tax-free stock acquisition, MRG incurred US$1.4 million in success-based fees. The success-based fees were capitalised as a non-amortising asset for US tax purposes that would only be recognised once the asset was sold. MRG recognised a deferred tax asset of US$0.4 million. Under IFRS, the deferred tax asset would not have been recognised since the reversal of these capitalised costs only occurs upon an unforeseen date. Therefore, the deferred tax asset was reversed against opening Deficit as at 4 January 2016. Similarly, the residual remeasurement of US$0.2 million of thus deferred tax asset was reversed through deficit for the year ended 31 December 2017.

Goodwill impairment—As described in this note, under US GAAP, MRG recorded a goodwill impairment charge of US$14.2 million in 2016, which was a non-deductible expense for tax purposes. MRG allocated the impairment between all acquisitions and as a result overstated the related disallowed tax deduction. As a result, the tax expense and deferred tax liability for the year ended 1 January 2017 was overstated by US$0.4 million. This was corrected by MRG as at 31 December 2017. This adjustment corrects the timing of the tax deduction recognised related to the goodwill impairment.

Deferred taxes—The various transitional adjustments described in this note lead to different temporary tax differences. Therefore, deferred tax adjustments have been recognised in correlation to the underlying transaction either through profit or a separate component of equity.

Remeasurements for adoption of IFRS:

(K) *Foreign currency translation*—As discussed in note 1, MRG has deemed cumulative currency translation differences for all foreign operations to be zero as at 4 January 2016. The resulting adjustment is recognised against opening Deficit. Furthermore, under US GAAP, MRG recognised translation differences on foreign operations in Ordinary Shares and Share Premium as at 31 December 2017 and 1 January 2017. Under IFRS, translation differences have been recognised as a separate component of equity. As such, these translation differences were reclassified to Translation reserve.

(L) *Goodwill impairment*—Under US GAAP, goodwill was reviewed for impairment after being assigned to a reporting unit, which is an operating segment or one level below an operating segment. Prior to the adoption of Accounting Standard Update (ASU) 2017-04, if the fair value of the reporting unit was less than its carrying amount, a goodwill impairment was measured by comparing the carrying amount of the goodwill with its implied fair value. Under IFRS, as explained in note 1, goodwill is allocated to a CGU or group of CGUs for review for impairment, which represents the lowest level at which goodwill is monitored for internal management purposes. Under IFRS, an impairment loss is the amount by which the CGU or group of CGUs carrying amount exceeds its recoverable amount.

As a result of the change in method described above, MRG determined that under IFRS, goodwill should be assigned to three different groups of CGUs, and that the recoverable amount of each group exceeded their respective carrying amounts as at 1 January 2017. As such, an impairment loss of US$14.2 million recognised under US GAAP was reversed in 2016. Additionally, using the same method under IFRS, MRG determined that the recoverable amount of the goodwill allocated to the Apparel group of CGUs was less than its carrying amount, and recognised an impairment of US$1.5 million in 2017.

(M) *Impairment of property, plant and equipment*—Under US GAAP, long-lived assets were reviewed for impairment when events or changes in circumstances indicated that their carrying value may exceed the sum of the undiscounted future cash flows expected from use and eventual disposal. For the purposes of assessing impairment, assets were grouped at the lowest level for which identifiable cash flows were largely independent of the cash flows of other assets. If the estimated undiscounted cash flows for the asset group were less than the asset group's carrying amount, the impairment loss was measured as the excess of the carrying value of the store over fair value. Under IFRS, as explained in note 1, impairment of assets that do not generate cash inflows that are largely independent of those from other assets or groups of assets, is assessed at the CGU level based on the CGU's recoverable amount.

As a result of the changes in methodology, MRG determined that the recoverable amounts of certain retail stores, which are individually considered CGUs, were less than their carrying amounts. This resulted in an impairment loss of US$0.4 million in 2018. US$0.3 million of impairment was recognised in 2016, which was recorded in 2017 under US GAAP. Amounts were recognised against Property, plant, and equipment. Additionally, depreciation expense in 2016 was increased by US$0.1 million classified under Selling, general and administrative expense on the consolidated income statement.

(N) *Classification of sales discounts*—Under US GAAP, MRG recognised sales discounts related to hotel and resort loyalty programs as an expense within Selling, general and administrative expense on the consolidated income statement. As a result of adopting IFRS 15, MRG recognised these discounts as a reduction of revenue. The reclassification results in a decrease in Distribution costs and a corresponding decrease in Revenue of US$2.2 million, US$2.0 million and US$2.4 million for the years ended 30 December 2018, 31 December 2017 and 1 January 2017, respectively.

Section B: Reporting Accountant's report in relation to the Historical Financial Information of the MRG Group

The Directors
WH Smith PLC
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Swindon
SN3 3RX

J.P. Morgan Securities PLC (the **"Sponsor"**)
25 Bank Street
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E14 5JP

25 November 2019

Dear Ladies and Gentlemen

Marshall Retail Group Holding Company, Inc.

We report on the financial information relating to Marshall Retail Group Holding Company, Inc. for the three years ended 30 December 2018 set out in section A of Part III (the "**Financial Information Table**"). The Financial Information Table has been prepared for inclusion in the Class 1 circular dated 25 November 2019 (the "**Circular**") of WH Smith PLC (the "**Company**") on the basis of the accounting policies set out in note 1 to the Financial Information Table. This report is required by item 13.5.22R of the Listing Rules of the United Kingdom Listing Authority (the "**Listing Rules**") and is given for the purpose of complying with that item and for no other purpose.

Responsibilities

The Directors of the Company are responsible for preparing the Financial Information Table in accordance with International Financial Reporting Standards as adopted by the European Union and in a form that is consistent with the accounting policies adopted in the Company's financial statements for the year ended 31 August 2019.

It is our responsibility to form an opinion as to whether the Financial Information Table gives a true and fair view, for the purposes of the Circular and to report our opinion to you.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to shareholders of the Company as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 13.4.1R(6) of the Listing Rules, consenting to its inclusion in the Circular.

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Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to Marshall Retail Group Holding Company, Inc.'s circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the Financial Information Table gives, for the purposes of the Circular dated 25 November 2019, a true and fair view of the state of affairs of Marshall Retail Group Holding Company, Inc. as at the dates stated and of its profits, cash flows and changes in equity for the periods then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Yours faithfully

PricewaterhouseCoopers LLP

Chartered Accountants

PART IV

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Section A: Unaudited pro forma financial information of the Enlarged Group

The unaudited pro forma statement of net assets and pro forma income statement of the Enlarged Group set out below (together the ''**Unaudited Pro forma Financial Information**'') have been prepared on the basis of the notes set out below to illustrate the effect of the Acquisition, the Placing and the Debt Financing on the net assets of WH Smith as if they had each completed on 31 August 2019 and the effect of the Acquisition, the Placing and the Debt Financing on the income statement as if they had completed on 1 September 2018.

The Unaudited Pro forma Financial Information has been prepared in accordance with Listing Rule 13.3.3R, and in a manner consistent with the accounting policies of WH Smith in preparing its consolidated financial statements for the year ended 31 August 2019.

The Unaudited Pro forma Financial Information has been prepared for illustrative purposes only and due to its nature, it addresses a hypothetical situation and, therefore, does not represent WH Smith's actual financial position or results following Completion.

PwC's report on the Unaudited Pro forma Financial Information is set out in Section B of this Part IV.

In addition to the matters noted above the Unaudited Pro forma Financial Information does not reflect the effect of anticipated synergies and efficiencies or the related costs of achieving those synergies associated with the Acquisition.

1. Unaudited pro Forma statement of net assets relating to the Enlarged Group

Unaudited Pro Forma Statement of Net Assets as at 31 August 2019

(£ millions)	WH Smith As at 31 August 2019	MRG As at 30 December 2018	Adjustments: Net proceeds of the Placing	Adjustments: Debt financing adjustments	Adjustments: Acquisition adjustments	Unaudited pro forma Enlarged Group
	Note 1	Note 2	Note 3	Note 4	Note 5	Note 6
Non-current assets						
Goodwill	176	161	—	—	123	460
Other intangible assets	49	—	—	—	—	49
Property, plant and equipment	201	31	—	—	—	232
Investments in joint ventures	4	—	—	—	—	4
Deferred tax assets	8	—	—	—	—	8
Trade and other receivables	10	1	—	—	—	11
	448	193	—	—	123	764
Current assets						
Inventories	174	15	—	—	—	189
Trade and other receivables	73	6	—	—	—	79
Derivative financial assets	2	—	—	—	—	2
Cash and cash equivalents	49	4	152	199	(329)	75
	298	25	152	199	(329)	345
Total assets	746	218	152	199	(206)	1,109
Current liabilities						
Trade and other payables	(250)	(16)	—	—	1	(265)
Bank overdrafts and other borrowings	(15)	(1)	—	—	1	(15)
Retirement benefit obligations	(1)	—	—	—	—	(1)
Obligations under finance leases	(5)	—	—	—	—	(5)
Current tax liabilities	(7)	(1)	—	—	—	(8)
Short-term provisions	(1)	—	—	—	—	(1)
	(279)	(18)	—	—	2	(295)
Non-current liabilities						
Retirement benefit obligations	(3)	—	—	—	—	(3)
Bank overdraft and other borrowings	(200)	(111)	—	(199)	111	(399)
Long-term provisions	(4)	—	—	—	—	(4)
Obligations under finance leases	(9)	—	—	—	—	(9)
Deferred tax liabilities	(3)	(1)	—	—	—	(4)
Other non-current liabilities	(11)	(3)	—	—	—	(14)
	(230)	(115)	—	(199)	111	(433)
Total liabilities	(509)	(133)	—	(199)	113	(728)
Total net assets	237	85	152	—	(93)	381

(1) The net assets of WH Smith as at 31 August 2019 have been extracted, without material adjustment, from the WH Smith audited financial statements for the year ended 31 August 2019 incorporated by reference into this document.

(2) The net assets of MRG as at 30 December 2018 have been extracted from the MRG audited historical financial information for the period ended 30 December 2018, set out in Section A of Part III (*Historical Financial Information of the MRG Group*) of this document. The information has been translated from USD to GBP using the closing exchange rate at 31 August 2019 of US$1.22:£1.

(3) The net proceeds of the Placing of £152 million reflect the gross proceeds of the Placing of £155m raised on 17 October 2019, net of expenses (excluding VAT) in connection with the Placing of £3 million. The net proceeds of the Placing will be used to part-fund the Acquisition.

(4) The Debt Financing adjustment relates to a new term loan of £200 million. The net proceeds of the new Debt Financing are expected to be £199 million, net of estimated debt financing expenses of £1 million (excluding VAT).

The adjustment to cash and cash equivalents comprises the net proceeds of the new Debt Financing of £199 million.

The adjustment to non-current borrowings reflects the new debt financing liability of £200 million, offset by £1 million, of debt financing expenses.

(5) The Unaudited Pro Forma Financial Information has been prepared on the basis that the Acquisition of MRG by WH Smith will be treated as a business combination in accordance with IFRS 3 Business Combinations. WH Smith expects to undertake a fair value exercise following completion of the Acquisition and no account has been taken of any fair value adjustments to the acquired assets and liabilities of MRG in the Unaudited Pro Forma Financial Information. For the purposes of the Unaudited Pro Forma Financial Information the excess of the purchase consideration over the carrying amount of net assets acquired has been attributed to goodwill. The calculation of the adjustment to goodwill is set out below:

	£'000	£'000
Consideration paid		**315**
Less carrying value of net assets acquired as at 30 December 2018		
MRG net assets	85	
Borrowings not acquired	111	
Less: Cash not acquired	(4)	
Less: Goodwill derecognised	(161)	
Pro forma net assets acquired		31
Goodwill on acquisition		284
Adjustment to goodwill (before fair value adjustments to assets and liabilities)		123

The consideration paid is calculated as the headline consideration of US$400 million translated to GBP at an exchange rate of US$1.27:£1, which reflects the exchange rate at which the Acquisition will occur on the date of closing as a result of the Hedging Arrangement, which has the economic effect of locking the foreign exchange rate of the consideration payable for the Acquisition from the US dollar amount of US$400 million into pounds sterling at approximately £315 million.

The adjustment to goodwill represents the increase to goodwill that will be generated as a result of the Acquisition. No fair value adjustments have been made as these are unknown at the date of this Circular.

The adjustment to cash includes deductions for the headline cash consideration of £315 million less the Acquisition costs associated with the Acquisition of £10 million less the MRG cash at 30 December 2018 of £4 million not acquired.

The adjustment to current and non-current borrowings of £1 million and £111 million, respectively, reflects MRG's existing term loan and revolving credit facility of £110 million and £2 million, respectively, net of debt issuance costs, which are not being acquired.

(6) No adjustment has been made to reflect the trading results of WH Smith since 31 August 2019 or MRG since 30 December 2018.

2. Unaudited pro forma income statement relating to the Enlarged Group

Unaudited Pro Forma Income Statement for the year ended 31 August 2019

(£ millions)	WH Smith Year ended 31 August 2019	MRG Year ended 30 December 2018	Adjustments: Debt financing adjustments	Adjustments: Acquisition costs	Unaudited pro forma Enlarged Group
	Note 1	Note 2	Note 3	Note 4	Note 5
Continuing operations					
Revenue	1,397	138	—	—	1,535
Group operating profit/(loss)	140	13	—	(10)	143
Finance costs	(5)	(10)	4	—	(11)
Profit/(loss) before tax	135	3	4	(10)	132
Income tax expense	(27)	—	(1)	1	27
Profit/(loss) for the year	108	3	3	(9)	105

(1) The income statement of WH Smith for the year-ended 31 August 2019 has been extracted, without material adjustment, from the audited WH Smith consolidated financial statements for the year ended 31 August 2019 incorporated by reference in Section 11 of Part VI of this document.

(2) The income statement of MRG for the year ended 30 December 2018 has been extracted from the historical financial information of MRG for the year ended 30 December 2018, as set out in Section A of Part III of this document. The information has been translated from USD to GBP using the average exchange rate for the year ended 31 August 2019 of US$1.28:£1.

(3) The adjustment to net interest payable reflects:

a. The removal of MRG finance costs of £10 million associated with MRG's existing borrowings for the year ended 30 December 2018.

b. As a consequence of the extinguishment of MRG's existing term loan and revolving credit facility, the remaining unamortised debt Acquisition costs of £1 million associated with the borrowings are reflected as an expense.

c. The finance cost associated with the additional Debt Financing had the new debt financing been in place from the beginning of the fiscal year, a total expense of £5 million.

d. The incremental amortisation of the debt financing costs associated with the additional Debt Financing. These costs, which total £1 million, have been capitalised and will be amortised on a ratable basis over the expected term of the loan.

The adjustment reflects the tax effect for the changes in the interest costs shown above, calculated as £1 million, using WH Smith's effective tax rate for the year ended 31 August 2019.

These adjustments have a continuing impact.

(4) Acquisition costs of £10 million incurred in connection with the Acquisition are reflected as an expense. The adjustment relates to estimated Acquisition costs of £10 million incurred by WH Smith. This excludes estimated expenses which are directly related to the issue of equity in the Placing of £3 million which have been accounted for as a deduction from equity. All costs that relate solely to the Acquisition have been expensed in accordance with IFRS 3 Business Combinations. These costs are non-recurring.

(5) The unaudited pro forma income statement does not reflect the effect of any fair value adjustments which may be recorded to acquired assets and liabilities. Upon completion of the purchase price allocation exercise, which will be finalised after completion of the Acquisition, additional depreciation of Property, plant and equipment and amortisation of intangible assets, amongst other things, may be required in the Enlarged Group's financial statements.

(6) No adjustment has been made to reflect the trading results of WH Smith since 31 August 2019 or MRG since 30 December 2018.

Section B: Reporting Accountant's report on Unaudited Pro Forma Financial Information

The Directors
WH Smith PLC
Greenbridge Road
Swindon
Wiltshire SN3 3RX
United Kingdom

J.P. Morgan Securities PLC
25 Bank Street
London E14 5JP
United Kingdom

25 November 2019

Dear Ladies and Gentlemen

WH Smith PLC (the "Company")

We report on the pro forma financial information (the "**Pro Forma Financial Information**") set out in section A of Part IV of the Company's circular dated 25 November 2019 (the "**Circular**") which has been prepared on the basis described in the notes to the Pro Forma Financial Information, for illustrative purposes only, to provide information about how the proposed acquisition of Marshall Retail Group Holding Company, Inc. by the Company might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the period ended 31 August 2019. This report is required by item 13.3.3R of the Listing Rules of the UK Listing Authority (the "**Listing Rules**") and is given for the purpose of complying with that Listing Rule and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company to prepare the Pro Forma Financial Information in accordance with item 13.3.3R of the Listing Rules.

It is our responsibility to form an opinion, as required by item 13.3.3R of the Listing Rules as to the proper compilation of the Pro Forma Financial Information and to report our opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro Forma Financial Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to shareholders of the Company as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 13.4.1R(6) of the Listing Rules, consenting to its inclusion in the Circular.

PricewaterhouseCoopers LLP, 1 Embankment Place, London, WC2N 6RH
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Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro Forma Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Opinion

In our opinion:

a) the Pro Forma Financial Information has been properly compiled on the basis stated; and

b) such basis is consistent with the accounting policies of the Company.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

PART V

SUMMARY OF THE PRINCIPAL TERMS AND CONDITIONS OF THE STOCK PURCHASE AGREEMENT

1. Introduction

On 17 October 2019, WH Smith, WH Smith USA and MRG Acquisition Holdings entered into the SPA, which sets out the terms and conditions for WH Smith USA to purchase all of the issued and outstanding common stock of MRG.

Upon Completion of the Acquisition, WH Smith will, indirectly, hold all equity interests in MRG.

2. Consideration

The consideration for the sale and purchase of the MRG Shares is US$400 million, which is subject to adjustments in relation to indebtedness, working capital, cash and transaction expenses of MRG.

The consideration is subject to a post-Completion adjustment in relation to the items set out above.

The following amounts shall, instead of being paid to MRG Acquisition Holdings, be paid into an escrow account at Completion: (1) US$5,000,000 in relation to any post-Completion adjustment to the consideration; (2) US$1,500,000 in relation to the indemnification obligations of MRG Acquisition Holdings pursuant to the SPA; (3) US$650,000 in relation to a non-material litigation matter relating to the MRG Group; and (4) US$1,600,000 in relation to the opening by the MRG Group of certain stores (such amount under (4) to be paid to MRG Acquisition Holdings and not into the escrow account if such stores are opened prior to Completion).

3. Representations, Warranties, Indemnities and Liability

Under the SPA, MRG Acquisition Holdings made customary representations and warranties to WH Smith and WH Smith USA, and WH Smith and WH Smith USA made customary representations and warranties to MRG Acquisition Holdings, in each case as at the date of the SPA.

MRG Acquisition Holdings has agreed to indemnify WH Smith USA, WH Smith, and their respective affiliates and connected persons in respect of: (1) any warranty or representation given by MRG Acquisition Holdings under the SPA not being true and correct as of the date of Completion; (2) the settlement of the non-material litigation matter; and (3) subject to certain exceptions, the failure to open certain new stores within two years of Completion.

WH Smith USA has agreed to indemnify MRG and its affiliates and connected persons in respect of: (1) any warranty or representation given by WH Smith USA under the SPA not being true and correct as of the date of Completion; and (2) breach or non-performance of any covenant or other agreement by WH Smith USA under the SPA.

The limitation period for claims in relation to:

(i) the Fundamental Representations (as defined in the SPA, and including representations and warranties that are customarily deemed to be fundamental, the "**Fundamental Representations**") given by the relevant parties is the date that is six years after the Completion Date;

(ii) the other representations and warranties given by the relevant parties is the date that is 12 months after the Completion Date;

(iii) the indemnification obligations of MRG Acquisition Holdings in relation to the non-material litigation matter is the date that the litigation matter settles as approved by a court of competent jurisdiction; and

(iv) the indemnification obligations of MRG Acquisition Holdings in relation to the failure to open new stores is the earlier of: (1) the date that is two years after the Completion Date; and (2) the date on which the new stores are opened.

Recovery by WH Smith USA and its other indemnified persons in relation to the indemnities in respect of:

(i) the warranties and representations given by MRG Acquisition Holdings under the SPA (excluding Fundamental Representations) shall be limited to (1) the amount of US$1,500,000; and (2) recovery under the R&W Policy;

(ii) the non-material litigation matter shall be limited to US$650,000;

(iii) the failure to open new stores shall be limited to US$1,600,000; and

(iv) the Fundamental Representations and fraud shall be limited to the Purchase Price (subject to adjustments) provided that MRG Acquisition Holdings shall only have liability to the extent the claim or any portion of such claim is not recoverable under the R&W Policy.

Save in relation to Fundamental Representations, WH Smith USA and its other indemnified persons shall not be entitled to recover any amount in relation to the indemnity in respect of the warranties and representations given by MRG Acquisition Holdings under the SPA unless the claiming party has suffered losses in excess of US$1,500,000, in which case it shall only be able to claim for losses above such amount.

No amount shall be payable in relation to indemnity claims under the SPA unless the amount claimed is at least US$50,000.

Other customary limitations apply to the indemnities given by MRG Acquisition Holdings and WH Smith USA.

4. Pre-Completion Covenants

4.1 *Conduct of MRG's business and access*

MRG Acquisition Holdings has agreed that pending Completion or the earlier termination of the SPA, except as required by applicable law or consented to by WH Smith USA and subject to certain agreed exceptions, it will cause each member of the MRG Group to use commercially reasonable endeavours to conduct its business in the ordinary course of business and in the same manner as currently conducted, and use commercially reasonable efforts to preserve intact its business organisation and maintain relationships with commercial counterparties and governmental entities. In addition, except as required by applicable law or consented to by WH Smith USA, MRG Acquisition Holdings has agreed not to permit any member of the MRG Group to take certain specified actions, including amending constitutional documents, declaring or paying dividends, making capital expenditures and incurring any indebtedness (subject to agreed exceptions).

Pending Completion or the earlier termination of the SPA, MRG Acquisition Holdings has also agreed to permit (and to cause the members of the MRG Group to permit) representatives of WH Smith USA to have access to the premises, books records, properties, contracts and documents of the MRG Group (subject to customary limitations and exceptions).

4.2 *Contact with business relations and exclusivity*

Pending Completion or the earlier termination of the SPA, WH Smith USA and its representatives may not, without the prior written consent of MRG Acquisition Holdings, contact or communicate with any of the customers or suppliers, employees (subject to certain exceptions), contractors, consultants, or other business relations of the MRG Group in connection with the Acquisition.

MRG Acquisition Holdings has agreed that pending Completion or the earlier termination of the SPA, subject to certain agreed exceptions, it will not (and will cause each member of the MRG Group not to) solicit any transaction concerning any sale of its stock or any merger, or sale, license, lease, exchange or other disposition of all or substantially all of the assets of the MRG Group, and shall immediately notify WH Smith USA of any proposal it receives in relation to any such transaction.

4.3 *Satisfaction of conditions*

Each party has agreed to take certain actions in order to secure the approval required for the Acquisition including under the HSR Act, provided that WH Smith USA shall not be required to make any divestments or similar commitments.

WH Smith has agreed to customary undertakings in relation to the preparation and submission of this document and any required supplementary circular(s), and MRG Acquisition Holdings has agreed to provide customary assistance.

WH Smith has agreed that the Board shall recommend that Shareholders vote in favour of the Resolution and not to, or to publically propose to, fail to make, withdraw, qualify or modify in a manner adverse to MRG Acquisition Holdings, such recommendation provided that the Board may effect a

WH Smith Recommendation Change if, following a material change of circumstances that was not known or reasonably expected to be known by the Board on the date of the SPA, the Board has determined in good faith, after consultation with its independent financial advisers and outside legal counsel, that the failure to take such action would constitute a violation of the Board's duties under applicable law.

WH Smith has agreed to take all actions to procure that the General Meeting is convened and held as soon as practicable and in any event not later than 31 January 2020.

5. Conditions

Completion of the Acquisition is conditional upon, among others, the satisfaction or waiver of the following Conditions:

(i) the approval of the Acquisition (as a Class 1 transaction under the Listing Rules) by Shareholders passing an ordinary resolution at the General Meeting;

(ii) obtaining consent from certain store landlords;

(iii) the expiration or termination of the applicable waiting period under the HSR Act and under any other applicable competition laws; and

(iv) the representations and warranties of WH Smith USA and MRG Acquisition Holdings being true and correct as at the Completion Date, subject to certain exemptions based on materiality, material adverse effect and similar standards.

Pursuant to the requirements of the HSR Act, WH Smith and MRG each filed a Notification and Report Form with respect to the Acquisition with the FTC and the DOJ on 24 October 2019 and requested early termination of the HSR Act waiting period. The applicable HSR Act waiting period for the Acquisition expired on 1 November 2019.

Certain of the leases and awards under which the MRG Group operates or will operate stores include terms giving the landlord an ability to terminate the lease or award following a change of control of MRG. The termination of such leases or awards could have a material adverse effect on the MRG Group. Accordingly, Completion is conditional on receiving consents from landlords such that, when taken together with stores and awards for which there are no change of control termination rights, WH Smith is not required to complete the Acquisition if any termination of leases or awards arising from a change of control of MRG would have a material adverse effect on the EBITDA of the MRG Group. See further the risk factor "*Completion is subject to a number of Conditions which may not be satisfied or waived or which may be satisfied subject to conditions imposed by regulatory bodies or other third parties and may result in Completion being delayed or the Acquisition not completing*" in Part II (*Risk Factors*) of this document.

6. Termination

The SPA may be terminated:

(i) by the mutual written consent of WH Smith USA and MRG Acquisition Holdings;

(ii) by either of WH Smith USA or MRG Acquisition Holdings if there has been a material breach or failure to perform on the part of the other of any representation, warranty, covenant or agreement contained in the SPA, which breach or failure to perform would reasonably be expected to cause the conditions relating to representations and warranties or performance of covenants to not be satisfied at Completion, and which (if capable of cure) is not cured within 20 business days' notice;

(iii) by either of WH Smith USA or MRG Acquisition Holdings if any governmental authority shall have enacted, issued, promulgated, enforced or entered any law or order, or refused to grant any required consent or approval, having the effect of permanently restraining, enjoining or otherwise prohibiting the Acquisition (provided that neither WH Smith USA or MRG Acquisition Holdings shall be entitled to terminate if they have breached their obligations relating to the obtaining of competition approvals or to use reasonable best efforts to complete the Acquisition);

(iv) by MRG Acquisition Holdings prior to the General Meeting, if the Board or any duly constituted and authorised committee thereof has made a WH Smith Recommendation Change;

(v) by MRG Acquisition Holdings if WH Smith is in material breach of its obligations in relation to the approval of the Resolution and such breach would reasonably be expected to result in the relevant condition not being satisfied;

(vi) by MRG Acquisition Holdings if the General Meeting has not been held by 31 January 2020;

(vii) by either of WH Smith USA or MRG Acquisition Holdings if the General Meeting (including any adjournments and postponements thereof) has concluded and the requisite shareholder approval has not been obtained;

(viii) by either of WH Smith USA or MRG Acquisition Holdings if the transactions contemplated hereby have not been consummated prior to 31 March 2020 (the "**Long-stop Date**"), (provided that neither WH Smith USA or MRG Acquisition Holdings shall be entitled to terminate if their breach of the SPA has prevented the consummation of the Acquisition).

WH Smith USA is required to pay MRG Acquisition Holdings the sum of US$10,000,000 if the SPA is terminated in the circumstances contemplated by (iv), (v), (vi) or (if the only condition not satisfied by the Long-stop Date is the approval of the Resolution) (viii) above.

7. Post-Completion Covenants

For a period of 12 months following Completion, WH Smith USA has confirmed that it intends to provide the continuing employees of the MRG Group with equivalent salary and bonus opportunities as they currently enjoy. WH Smith USA has further agreed to take certain actions in relation to ensuring that the level of benefits (for example in relation to holiday entitlement) enjoyed by continuing employees of the MRG Group does not decrease following Completion.

From Completion and without limit in time, WH Smith USA has agreed to:

(i) not decrease the rights to indemnification of any director, officer, manager or employee of, or holder of equity interests in, and member of the MRG Group; and

(ii) provide D&O indemnity and insurance cover to the current and former managers, directors and officers of each member of the MRG Group.

MRG Acquisition Holdings shall be entitled to receive customary tax refunds in relation to the pre-Completion period, and the parties have agreed to cooperate in relation to tax matters.

PART VI

ADDITIONAL INFORMATION

1. Responsibility

The Company and the Directors, whose names appear in paragraph 3.1 below, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Company and the Directors (each of whom has taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. Incorporation and registered office

The Company was incorporated and registered in England and Wales on 10 August 2004 as a private company limited by shares with the name Pollquote Limited and the registered number 05202036. On 23 June 2006, the Company re-registered as a public limited company and changed its name to New WH Smith PLC. On 30 August 2006 New WH Smith PLC was renamed WH Smith PLC.

The principal legislation under which the Company operates, and pursuant to which the Shares have been created is the Companies Act 2006 and the regulations made thereunder.

The Company is domiciled in the United Kingdom with its registered office at Greenbridge Road, Swindon, Wiltshire, SN3 3RX, United Kingdom. The Company's headquarters is 133 Houndsditch, London, EC3A 7BX, United Kingdom. The telephone number of the Company's registered office is +44 (0)1793 616161.

3. Directors

3.1 *Directors*

The Directors of the Company as at the date of this document and their respective roles are set out below:

Name	Position
Henry Staunton	Chairman
Carl Cowling	Chief Executive
Robert Moorhead	Chief Financial Officer and Chief Operating Officer
Suzanne Baxter	Non-Executive Director
Annemarie Durbin	Non-Executive Director
Simon Emeny	Non-Executive Director
Drummond Hall	Non-Executive Director
Maurice Thompson	Non-Executive Director

Drummond Hall will stand down as a director of the Company at the Company's Annual General Meeting on 22 January 2020.

3.2 *Share interests*

The Directors have the following interests in the Shares (including beneficial interests or interests of a person connected with a Director) as at the Latest Practicable Date.

	Interests as at the Latest Practicable Date	
Director	No.	% of total issued share capital
Henry Staunton	30,000	0.0261
Carl Cowling	15,193	0.0132
Robert Moorhead	192,502	0.1699
Suzanne Baxter	1,000	0.0009
Annemarie Durbin	1,000	0.0009
Simon Emeny	2,000	0.0017
Drummond Hall	10,000	0.0087
Maurice Thompson	2,500	0.0022

Taken together, the combined percentage interest of the Directors voting rights in respect of the issued ordinary share capital of WH Smith as at the Latest Practicable Date is 0.22%.

3.3 *Share awards*

The Directors had the following options and awards relating to the Shares under its employee share schemes as at the Latest Practicable Date.

Directors	Plan	Original date of grant	Exercise price (if any) (£)	No. of shares subject to awards	Exercise period
Carl Cowling	WH Smith LTIP	20 October 2016	nil	17,345	20 October 2021 – 20 October 2026
	WH Smith LTIP	26 October 2017	nil	36,457	26 October 2020 – 26 October 2027
	WH Smith LTIP	1 November 2018	nil	40,515	1 November 2023 – 1 November 2028
	WH Smith DBP	24 October 2019	nil	3,990	24 October 2020 – 24 October 2022
	WH Smith LTIP	5 November 2019	nil	79,557	5 November 2024 – 5 November 2029
Robert Moorhead . .	WH Smith LTIP	20 October 2016	nil	27,973	20 October 2021 – 20 October 2026
	WH Smith LTIP	26 October 2017	nil	57,009	26 October 2020 – 26 October 2027
	WH Smith LTIP	1 November 2018	nil	63,354	1 November 2023 – 1 November 2028
	WH Smith DBP	24 October 2019	nil	3,962	24 October 2020 – 24 October 2022
	WH Smith LTIP	5 November 2019	nil	61,701	5 November 2024 – 5 November 2029

3.4 *Summary of the Directors' remuneration and benefits*

A summary of the amount of remuneration paid to the Directors (including any contingent or deferred compensation) and benefits in kind for the year ended 31 August 2019 is set out in the table below. The Directors are categorised in their positions as at 31 August 2019 for these purposes.

3.4.1 Executive Directors

	Base salary	Benefits	Annual bonus	Long-term incentives	Pension	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Carl Cowling*	201	7	520	698	28	1,454
Robert Moorhead	399	14	516	1,126	97	2,152

* Carl Cowling was appointed as a director on 26 February 2019

3.4.2 Chairman and Non-Executive Directors

	Base salary	Committee/SID fee	Benefits	Total
	£'000	£'000	£'000	£'000
Henry Staunton	235	—	—	235
Suzanne Baxter	55	12	2	69
Annemarie Durbin	55	7	—	62
Simon Emeny	28	—	—	28
Drummond Hall	55	17	—	72
Maurice Thompson	28	—	1	29

3.5 *Directors' terms and conditions*

Save as disclosed below, there are no service agreements or letters of appointment in force between a director or proposed director of WH Smith or any of its subsidiaries and, save as disclosed below, no such agreement has been entered into or amended during the 6 months' preceding the date of this document. All the Directors retire and seek election or re-election at Annual General Meetings in accordance with the UK Corporate Governance Code.

3.5.1 Executive Directors

	Date of appointment	Notice period by Company (months)	Notice period by Director (months)
Carl Cowling	26 February 2019	12 months	12 months
Robert Moorhead	1 December 2008	12 months	9 months

Carl's service agreement provides for notice of 12 months from the Company and 12 months from Carl. Carl is entitled to continue to receive his salary and benefits during his notice period. In the event that Carl's service agreement is terminated for cause, the Company may terminate the service agreement with immediate effect.

Carl's salary is subject to review by the Company's Remuneration Committee from time to time. Carl is eligible to participate in the Company's annual bonus scheme and pension scheme.

Robert's service agreement provides for notice of twelve months from the Company and nine months from Robert and Robert is entitled to continue to receive his salary and benefits during his notice period. In the event that Robert's service agreement is terminated for cause, the Company may terminate the service agreement with immediate effect.

Robert's salary is subject to review by the Company's Remuneration Committee from time to time. Robert is eligible to participate in the Company's annual bonus scheme and pension scheme.

Each Executive Director receives a car allowance, private medical insurance and life assurance.

Bonuses are paid in cash and shares. Any bonus payable over target is deferred into shares for a period of up to three years. The shares are released one third on each anniversary of assessment.

3.5.2 Non-Executive Directors

	Date of appointment	Notice period by Company (months)	Notice period by Director (months)
Henry Staunton	1 September 2010	—	—
Suzanne Baxter	4 February 2013	—	—
Annemarie Durbin	3 December 2012	—	—
Simon Emeny	26 February 2019	—	—
Drummond Hall	1 September 2008	—	—
Maurice Thompson	26 February 2019	—	—

Remuneration of Non-Executive Directors consists of a base fee covering their service as a non-executive director and additional fees for the chairmanship of any committee. In line with the Group's employees, the Chairman and the Non-Executive Directors receive an employee staff discount. Apart from these fees, no other remuneration is provided to the Non-Executive Directors. Non-Executive Directors do not participate in any of WH Smith's bonus or employee share schemes.

The Chairman, who has a letter of appointment, is appointed for an initial term of three years. His appointment may be terminated at any time by either the Company or the Chairman without notice. The Non-Executive Directors, who have letters of appointment, are appointed for an initial term of three years. These appointments can be terminated at any time by either the Company or the Non-Executive Director without notice.

None of the Non-Executive Directors' appointment terms provide for a specific payment or compensation in the event of termination of the appointment.

4. Major shareholders

As at the Latest Practicable Date, insofar as is known to the Company, the following persons had an interest which represents 3% or more of the voting share capital of the Company, and the amount of such person's interest, is as follows:

	Interest as at Latest Practicable Date	
Shareholder	No.	% of total issued share capital
Aberdeen Asset Managers Limited	5,608,298	4.95
BlackRock Inc.	6,825,752	5.93
M&G PLC	7,971,971	6.92
Marathon Asset Management LLP	6,002,055	5.21
Royal London Asset Management Limited	5,515,381	5.11

Save as disclosed above, the Directors are not aware of any interest which will represent an interest in WH Smith's share capital or voting rights which is notifiable under the Disclosure Guidance and Transparency Rules.

5. Material contracts

5.1 *WH Smith material contracts*

The following is a summary of each material contract, other than contracts entered into in the ordinary course of business, to which the Company or any member of the WH Smith Group is a party, for the two years immediately preceding the date of publication of this document and a summary of any other contract (not being a contract entered into in the ordinary course of business) entered into by any member of the WH Smith Group which contains any provision under which any member of the WH Smith Group has any obligation or entitlement which is material to the WH Smith Group as at the date of this document:

5.1.1 Stock Purchase Agreement

Details of the Stock Purchase Agreement are set out under Part V (*Summary of the Principal Terms and Conditions of the Stock Purchase Agreement*) of this document.

5.1.2 Placing and Sponsor Agreement

On 17 October 2019, the Company, J.P. Morgan Cazenove and Barclays entered into a placing and sponsor agreement (the "**Placing and Sponsor Agreement**"), pursuant to which the Company appointed J.P. Morgan Cazenove and Barclays as joint bookrunners in connection with the Placing. The Company also appointed J.P. Morgan Cazenove as sponsor in connection with the Acquisition. Admission of the Placing Shares to the Official List of the FCA and to trading on the main market for listed securities of the London Stock Exchange took place on 21 October 2019.

Subject to the terms and conditions of the Placing and Sponsor Agreement, each of J.P. Morgan Cazenove and Barclays severally agreed, as agent for the Company, to use its reasonable endeavours to procure placees for such number of new Shares as would result in gross proceeds from the Placing of £155 million (before fees and expenses). In consideration for the services provided by the joint bookrunners under the Placing and Sponsor Agreement, the Company paid the joint bookrunners an aggregate commission of 1.5% and an aggregate discretionary commission of 0.5% of the gross proceeds of the Placing.

Under the Placing and Sponsor Agreement, the Company gave certain customary representations, warranties and undertakings to the joint bookrunners concerning, among other things, the accuracy of the statements of fact in certain public documents, including, but not limited to, the Placing Announcement and the Acquisition Announcement, and in relation to other matters relating to the Company and its business, and a customary indemnity from the Company in favour of joint bookrunners.

The Placing Shares have not been, and will not be, registered under the Securities Act or under any securities laws or any state or other jurisdiction of the United States and may not be offered, sold, resold, pledged, delivered, distributed or transferred, directly or indirectly, within the United States, except pursuant to an available exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States. There has not been, and will not be, any public offer of the Placing Shares in the United States

5.1.3 £200,000,000 New Debt Facility

On 17 October 2019, WH Smith entered into a term credit facility agreement between: (1) WH Smith; (2) WH Smith Retail Holdings Limited (as original borrower); (3) WH Smith Retail Holdings Limited, WH Smith Travel Limited, WH Smith High Street Limited and WH Smith Hospitals (as original guarantors); (4) Banco Santander S.A., London Branch, Barclays Bank PLC, BNP Paribas Fortis SA/NV and HSBC UK Bank PLC (as mandated lead arrangers and original lenders) and; (5) Banco Santander, S.A., London Branch (as agent) (the "**New Debt Facility**").

The facility made available under the New Debt Facility is a £200,000,000 term credit facility, subject to the satisfaction of certain conditions precedent. The New Debt Facility is available for drawing in sterling only. Amounts borrowed under the New Debt Facility are to be used only for the financing of the Acquisition including the repayment of the MRG Debt Facility together with certain costs and working capital requirements in connection with the Acquisition. The New Debt Facility is available to be utilised by way of a single drawdown only, and once repaid may not be re-borrowed.

The rate of interest on each loan under the New Debt Facility is the percentage rate per annum which is equal to the aggregate of LIBOR and the margin, the margin being the applicable percentage rates per annum as follows:

- 17 October 2019 until 16 April 2020—1.00%;
- 17 April 2019 until 16 July 2020—1.125%;
- 17 July 2020 until 16 October 2020—1.25%;
- 17 October 2020 until 16 January 2021—1.50%;
- 17 January 2021 until 16 April 2021—2.00%;
- 17 April 2021 until 16 July 2021—2.50%; and
- 17 July 2021 until 16 October 2021—3.00%.

The termination date of the New Debt Facility is 17 October 2020, on which all outstanding amounts shall be repaid to the lenders. Subject to certain terms and the consent of the lenders, the New Debt Facility termination date may be extended until 17 October 2021. The New Debt Facility may be prepaid without premium or penalty.

The New Debt Facility contains customary representations, undertakings and events of default with certain carve-outs and materiality thresholds (where relevant). The undertakings include, among others, restrictions on the creation of security, the disposal of assets and acquisitions (each with permitted exceptions). The New Debt Facility also contains financial covenants relating to leverage, fixed charge coverage and guarantor coverage. The New Debt Facility contains provisions specific to the US nature of the Acquisition.

The New Debt Facility includes a certain funds mechanism, whereby the lenders are obliged to participate in loans requested by the Company during a certain funds period (subject to certain key conditions being satisfied, which includes the passing of the Resolution).

The New Debt Facility is governed by English law.

5.1.4 £200,000,000 Existing Credit Facility

On 29 October 2018, WH Smith entered into a term credit facility agreement between: (1) WH Smith; (2) WH Smith Retail Holdings Limited (as original borrower); (3) WH Smith Retail Holdings Limited, WH Smith Travel Limited and WH Smith High Street Limited (as original guarantors) and WH Smith Hospitals Limited (which has acceded as a guarantor); (4) Banco Santander S.A., London Branch, Barclays Bank PLC, BNP Paribas Fortis SA/NV and HSBC UK Bank PLC (as mandated lead arrangers and original lenders) and; (5) Banco Santander, S.A., London Branch (previously Santander UK PLC) (as facility agent) (the "**Existing Credit Facility**").

The facility made available under the Existing Credit Facility was a £200,000,000 term credit facility, subject to the satisfaction of certain conditions precedent. The Existing Credit Facility is available for drawing in sterling only. Amounts borrowed under the Existing Credit Facility were limited to the financing of the acquisition of InMotion, together with certain costs and working capital requirements in connection with this acquisition. The Existing Credit Facility limits utilisation to a single drawdown, and amounts repaid may not be re-borrowed.

The rate of interest on each loan under the Existing Credit Facility is the percentage rate per annum which is equal to the aggregate of LIBOR and the margin (being 1.00%) per annum.

Two instalments, each of £25,000,000, are due on 29 October 2021 and 29 April 2022 respectively. The termination date of the Existing Credit Facility is 29 October 2022, on which all outstanding amounts shall be repaid to the lenders. The Existing Credit Facility may be prepaid without premium or penalty.

The Existing Credit Facility contains customary representations, undertakings and events of default with certain carve-outs and materiality thresholds (where relevant). The undertakings include, among others, restrictions on the creation of security, the disposal of assets and acquisitions (each with permitted exceptions). The Existing Credit Facility also contains financial covenants relating to leverage, fixed charge coverage and guarantor coverage.

The Existing Credit Facility contains certain funds provisions, by which the lenders were obligated to participate in loans requested during a certain funds period (subject to certain key conditions being satisfied).

The Existing Credit Facility is governed by English law.

Existing Credit Facility—Amendments

On 18 February 2019, the parties to the Existing Credit Facility entered into an amendment letter to amend the guarantor coverage test under the Existing Facility Agreement (the "**Guarantor Coverage Test**") from 75% (or more) of the Group's annual turnover and pre-tax profits to 70% (or more) of the Group's annual pre-tax profits.

On 17 October 2019, the parties to the Existing Credit Facility entered into a further amendment letter under which, among other things, pursuant to the Acquisition:

- the Guarantor Coverage Test was amended to be 85% (or more) of the group's annual consolidated turnover and pre-tax profits;
- the lenders consented to the Class 1 nature of the Acquisition and confirmed that the Acquisition would not cause a breach of the terms of the Existing Credit Facility; and
- provisions customary to the US nature of the Acquisition was inserted.

5.1.5 £140,000,000 Revolving Credit Facility

Existing RCF Facility—Original 2016 Agreement

On 9 December 2016, WH Smith entered into a revolving credit facility agreement between: (1) WH Smith; (2) WH Smith Retail Holdings Limited (as original borrower); (3) WH Smith Retail Holdings Limited, WH Smith Travel Limited and WH Smith High Street Limited (as original guarantors) and WH Smith Hospitals Limited (which has acceded as a guarantor); (4) Barclays Bank PLC, HSBC UK Bank PLC (previously HSBC Bank PLC), Santander UK plc (previously Abbey National Treasury Services PLC) and BNP Paribas (as mandated lead arrangers, bookrunners and original lenders) and; (5) Banco Santander, S.A., London Branch (previously Santander UK PLC) (as facility agent) (the "**Existing RCF Facility**").

The facility made available under the Existing RCF Facility is a £140,000,000 multicurrency revolving credit facility. Subject to the satisfaction of certain conditions precedent, the Existing RCF Facility is available for drawing in sterling, US dollars, euro and other currencies (subject to certain conditions). Amounts borrowed under the Existing RCF Facility may be used for general corporate purposes. The Existing RCF Facility contains an accordion feature whereby the Company may give notice to the facility agent that it wishes to increase the total commitments under the Existing RCF Facility by up to £100 million in aggregate and subject to the agreement of the lenders (the "**RCF Accordion**").

The rate of interest on each loan under the Existing RCF Facility is the percentage rate per annum which is equal to the aggregate of LIBOR (or if the loan is denominated in euro, EURIBOR) and the margin (being 0.85%) per annum.

The Existing RCF Facility may be prepaid without premium or penalty but subject to breakage costs (if applicable). Subject to its terms, amounts repaid under the Existing RCF Facility may be re-borrowed.

The final maturity date of the Existing RCF Facility is 9 December 2023 (by virtue of the Company having exercised the two extension options thereunder).

The Existing RCF Facility contains customary representations, undertakings and events of default with certain carve-outs and materiality thresholds (where relevant). The undertakings include, among others, restrictions on the creation of security, the disposal of assets and acquisitions (each with permitted exceptions). The Existing RCF Facility also contains financial covenants relating to leverage, fixed charge coverage and guarantor coverage.

The Existing RCF Facility is governed by English law.

Existing RCF Facility—Amendments

On 18 February 2019, the parties to the Existing RCF Facility entered into an amendment letter to amend the guarantor coverage test under the Revolving Facility Agreement (the "**RCF Guarantor**

Coverage Test") from 75% (or more) of the Group's annual turnover and pre-tax profits to 70% (or more) of the Group's annual pre-tax profits.

On 17 October 2019, the parties to the Existing RCF Facility entered into a further amendment letter (the "**RCF Acquisition Amendment Letter**") under which, among other things, pursuant to the Acquisition:

- the RCF Guarantor Coverage Test was amended to be 85% (or more) of the Group's annual consolidated turnover and pre-tax profits;
- the lenders consented to the Class 1 nature of the Acquisition and confirmed that the Acquisition would not cause a breach of the terms of the Existing RCF Facility;
- provisions customary to the US nature of the Acquisition was inserted; and
- following the lender's receipt of the New Commitments Notice (as defined under the heading below), the lenders' commitments would increase by £60,000,000 to a total of £200,000,000.

Existing RCF Facility—£60,000,000 New Commitments

On 17 October 2019, the Company gave notice to Banco Santander, S.A., London Branch (previously Santander UK PLC) in its role as facility agent under the Existing RCF Facility wherein the Company expressed its wish to exercise the RCF Accordion by increasing the Existing RCF Facility total commitments by £60,000,000 (the "**New Commitments Notice**"). This increase was granted by the lenders under the terms of the RCF Acquisition Amendment Letter.

The Company has obtained the additional commitments under the Existing RCF Facility to provide additional headroom for the Enlarged Group's working capital requirements reflecting the Enlarged Group's increased scale. The Company does not intend to use the Existing RCF Facility to finance the Acquisition.

5.1.6 InMotion Purchase Agreement

On 29 October 2018, InMotion, IME C, LLC (formerly known as Palladin C LLC), Bruckmann, Rosser, Sherril & Co. III, L.P. and WH Smith Travel Limited entered into a membership interest purchase agreement (the "**InMotion Purchase Agreement**"), pursuant to which WH Smith Travel Limited acquired 100% of the share capital of InMotion.

Under the InMotion Purchase Agreement the acquisition of InMotion was effected by a sale of 18,505,000 "Class A Units" and 6,133,235 "Class B Units" of InMotion from certain equity-holders as well 16,250,000 "Class A Units" of InMotion owned, immediately prior to closing of the InMotion acquisition (the "**InMotion Closing**"), by Palladin II, LLC and IME C, LLC.

The InMotion Purchase Agreement contained certain representations, warranties and covenants from the various sellers, InMotion and WH Smith Travel Limited as buyer, although the representations and warranties were expressed to terminate and be of no further effect after the InMotion Closing (except in the case of fraud). The covenants contained in the InMotion Purchase Agreement were expressed to survive for a period of four months following the InMotion Closing (subject to certain exceptions). WH Smith Travel Limited and certain of its related parties were indemnified for certain losses under the InMotion Purchase Agreement, although these indemnities were subject to certain caps and limitations.

On 30 November 2018, the Company announced the closing of acquisition of InMotion.

5.2 *MRG material contracts*

The following is a summary of each material contract, other than contracts entered into in the ordinary course of business, to which MRG or any member of the MRG Group is a party, for the two years immediately preceding the date of publication of this document and a summary of any other contract (not being a contract entered into in the ordinary course of business) entered into by any member of the MRG Group which contains any provision under which any member of the MRG Group has any obligation or entitlement which is material to the MRG Group as at the date of this document:

5.2.1 Stock Purchase Agreement

Details of the Stock Purchase Agreement are set out under Part V (*Summary of the Principal Terms and Conditions of the Stock Purchase Agreement*) of this document.

5.2.2 MRG Debt Facility

In connection with the 2014 acquisition of the outstanding stock of MRG Holdings Corp.; MRG Holdings Corp., through its wholly owned subsidiaries The Marshall Retail Group, LLC and The Marshall Retail Group, Canada (collectively, the "**MRG Companies**"), entered into a credit agreement. The credit agreement provided for the US$140,000,000 MRG Term Loan (as defined above), a US$15,000,000 revolving credit facility (the "**MRG Credit Agreement Revolving Credit Facility**") and, upon the satisfaction of certain conditions, a US$10,000,000 MRG Delayed Draw Term Loan (as defined above) (collectively, the "**MRG Debt Facility**"). The MRG Term Loan principal is due in quarterly instalments of US$350,000 continuing through July 2020, with the remaining balance due in August 2020. The MRG Delayed Draw Term Loan is to be repaid in quarterly instalments equal to 0.25% of the initial principal amount of the MRG Delayed Draw Term Loan, with the remaining balance due in August 2020. The MRG Credit Agreement Revolving Credit Facility matures in August 2020. Interest is due at an Index Rate plus 4.75%, or the MRG Companies may elect to pay interest at the applicable London Interbank Offered Rate ("**LIBOR**") plus 6.00%. The Index Rate is the greater of: (1) the higher of the Federal Funds Rate plus 50 basis points or *The Wall Street Journal* prime rate; or (2) the three-month LIBOR (not to be less than 1.00%) plus 1.25% (the "**Index Rate**"). The interest rate in effect for 2018 was approximately 8.00%. At 30 December 2018 and 31 December 2017, there was approximately US$2,000,000 and US$0 in borrowings under the MRG Credit Agreement Revolving Credit Facility, respectively, and no borrowings under the MRG Delayed Draw Term Loan. The loans are secured by substantially all the MRG Companies' assets. The MRG Debt Facility requires the MRG Companies to comply with certain financial covenants as defined in the agreement. The outstanding balance of the MRG Term Loan at 30 December 2018 and 31 December 2017, was approximately US$134,336,000 and US$135,486,000, respectively.

Lender fees of approximately US$3,921,000 were incurred in connection with the MRG Debt Facility, and are reflected as a debt discount and amortised over the remaining term of the MRG Debt Facility using the effective interest method; the unamortised debt discount as at 30 December 2018 and 31 December 2017, was approximately US$1,122,000 and US$1,805,000, respectively. Amortisation of debt discount totalled approximately US$682,000 and US$671,000 during the years ended 30 December 2018 and 31 December 2017, respectively, and has been included with interest expense.

The MRG Group also utilises irrevocable standby letters of credit to support certain agreements into which it has entered. The aggregate amount available under these letters of credit was approximately US$1,048,000 and US$120,500 at 30 December 2018 and 31 December 2017, respectively, all of which expire during 2019.

Any outstanding amounts payable under the MRG Debt Facility will be repaid at Completion.

6. Litigation

6.1 *WH Smith litigation*

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during the 12 months prior to the date of this document which may have, or have had in the recent past, significant effects on the Company and/or the WH Smith Group's financial position or profitability.

6.2 *MRG litigation*

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during the 12 months prior to the date of this document which may have, or have had in the recent past, significant effects on MRG and/or the MRG Group's financial position or profitability.

7. Working capital

The Company is of the opinion that, taking into account the net proceeds of the Placing and the facilities available to the Enlarged Group, the Enlarged Group has sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of publication of this document.

8. Significant change

There has been no significant change in the financial or trading position of the WH Smith Group since 31 August 2019, being the date to which the last published audited financial statements were prepared.

There has been no significant change in the financial or trading position of the MRG Group since 30 December 2018, being the date to which the financial information on the MRG Group, presented in Section A of Part III (*Historical Financial Information of the MRG Group*) has been prepared.

9. Related party transactions

Save as disclosed in the information incorporated by reference into this document referred to below, the Company entered into no transactions with related parties during the years ended 31 August 2019, 2018 and 2017.

- Note 27 of the notes to the audited consolidated financial statements for WH Smith for the year ended 31 August 2019 which can be found at page 109 of the WH Smith Annual Report 2019;
- Note 27 of the notes to the audited consolidated financial statements for WH Smith for the year ended 31 August 2018 which can be found at page 105 of the WH Smith Annual Report 2018; and
- Note 26 of the notes to the audited consolidated financial statements for WH Smith for the year ended 31 August 2017 which can be found at page 96 of the WH Smith Annual Report 2017.

For the period from and including 1 September 2019 to the Latest Practicable Date, there were no related party transactions entered into by the Company.

10. Consents

PwC has given and not withdrawn its written consent to the inclusion of its accountant's report on:

- the Historical Financial Information of the MRG Group in Section B of Part III (*Historical Financial Information of the MRG Group*); and
- the Unaudited Pro Forma Financial Information in Section B of Part IV (*Unaudited Pro Forma Financial Information of the Enlarged Group*),

of this document in the form and context in which they are included.

Greenhill has given and has not withdrawn its written consent to the inclusion in this document of the references to its name in the form and context in which they are included.

J.P. Morgan Cazenove has given and has not withdrawn its written consent to the inclusion in this document of the references to its name in the form and context in which they are included.

Barclays has given and has not withdrawn its written consent to the inclusion in this document to its name in the form and context in which they are included.

11. Information incorporated by reference

The following documents, which have been filed with or notified to the FCA and are available for inspection in accordance with paragraph 12 of this Part VI (*Additional Information*) of this document, contain information about the WH Smith Group which is relevant to this document:

- WH Smith's audited consolidated financial statements for the year ended 31 August 2019, together with an audit report in respect of that period and a discussion of WH Smith's financial performance;

- WH Smith's audited consolidated financial statements for the year ended 31 August 2018, together with an audit report in respect of that period and a discussion of WH Smith's financial performance; and
- WH Smith's audited consolidated financial statements for the year ended 31 August 2017, together with an audit report in respect of that period and a discussion of WH Smith's financial performance.

The table below sets out the sections of these documents which are incorporated by reference in, and form part of, this document, and only the parts of the documents identified in the table below are incorporated by reference in, and form part of, this document. The parts of the documents which are not incorporated by reference are either not relevant for the purposes of making a properly informed decision as to how to vote on the Resolution or are covered elsewhere in this document. Where the information described below itself incorporates further information by reference to another document, that further information is not intended to form part of this document for any purpose.

Reference	Sections incorporated by reference	Page number(s)
WH Smith Annual Report 2019 . . .	Note 27 of the notes to the audited consolidated financial statements for WH Smith for the year ended 31 August 2019	109
WH Smith Annual Report 2018 . . .	Note 27 of the notes to the audited consolidated financial statements for WH Smith for the year ended 31 August 2018	105
WH Smith Annual Report 2017 . . .	Note 26 of the notes to the audited consolidated financial statements for WH Smith for the year ended 31 August 2017	96

12. Documents available for inspection

Copies of the following documents will be available for inspection at the Company's registered office at Greenbridge Road, Swindon, Wiltshire, SN3 3RX, United Kingdom during normal business hours on Monday to Friday each week (public holidays excepted) for the period from the date of this Circular to the conclusion of the General Meeting:

- Memorandum of Association and the Articles of Association;
- the audited consolidated financial information for the WH Smith Group in respect of the three financial years ended 31 August 2019, 2018 and 2017;
- the report of PwC on the Historical Financial Information of the MRG Group in Section B of Part III (*Historical Financial Information of the MRG Group*) of this document;
- the report of PwC on the Unaudited Pro Forma Financial Information set out in Section B of Part IV (*Unaudited Pro Forma Financial Information of the Enlarged Group*) of this document;
- the SPA; and
- this document.

The above documents are available on the Company's website at www.whsmithplc.co.uk for the period from the date of this Circular to the conclusion of the General Meeting.

This document is dated 25 November 2019.

PART VII

DEFINITIONS

The following definitions shall apply throughout this document unless the context requires otherwise:

"Acquisition"	the proposed acquisition by WH Smith of the entire issued and to be issued share capital of MRG, pursuant to the SPA
"Acquisition Announcement"	the RNS announcement made by the Company on 17 October 2019 in relation to the Acquisition
"Articles of Association"	the articles of association of the Company
"Auditors"	PricewaterhouseCoopers LLP
"Barclays"	Barclays Bank PLC, acting through its Investment Bank
"Board"	the board of Directors of the Company
"CAGR"	compound annual growth rate
"Chairman"	the Chairman of WH Smith, Henry Staunton
"Companies Act 2006"	the UK Companies Act 2006
"Company" or "WH Smith"	WH Smith PLC a company registered in England and Wales with registered number 05202036
"Completion"	completion of the Acquisition
"Completion Date"	the date upon which Completion becomes effective
"Conditions"	the conditions to the implementation of the Acquisition as set out in the SPA
"CREST"	the relevant system (as defined in the Uncertificated Securities Regulations 2001) in respect of which Euroclear is the operator
"Debt Financing"	the New Debt Facility
"Debt Facilities"	the New Debt Facility, the Existing Credit Facility and the Existing RCF Facility, each as amended from time to time
"Directors"	the directors of WH Smith whose names appear in paragraph 3.1 of Part VI (*Additional Information*) of this document
"Disclosure Guidance and Transparency Rules"	the disclosure guidance and transparency rules made by the FCA under Part 6 of the FSMA
"DOJ"	US Department of Justice
"EBITDA"	group operating profit/(loss) before depreciation, amortisation and impairment of goodwill
"Enlarged Group"	the WH Smith Group and the MRG Group after the Acquisition has taken effect
"EPS"	earnings per share
"EU" or "European Union"	the European Union
"Euroclear"	Euroclear UK & Ireland Limited, the operator of CREST
"Executive Directors"	Carl Cowling and Robert Moorhead
"Existing Credit Facility"	the existing term credit facility of £200 million entered into by among others, WH Smith on 29 October 2018, as amended from time to time

“Existing RCF Facility”	the existing revolving credit facility of £140 million entered into by, among others, WH Smith on 9 December 2016 and as increased by £60 million to £200 million on 17 October 2019, as amended from time to time
“EY”	Ernst & Young LLP, 1 More London Riverside, London SE1 2AF
“FCA”	the Financial Conduct Authority or its successor from time to time
“FSMA”	the Financial Services and Markets Act 2000 as amended, modified or re-enacted from time to time
“FTC”	the US Federal Trade Commission
“General Meeting”	the general meeting of the Shareholders to be held to consider and, if thought fit, pass the Resolution in connection with the Acquisition
“Greenhill”	Greenhill & Co. International LLP
“Group” or “WH Smith Group”	WH Smith and its subsidiary undertakings (as defined in the Companies Act 2006), from time to time
“HSR Act”	the Hart-Scott-Rodino Antitrust Improvements Act 1976, as amended, and the rules and regulations promulgated thereunder
“IFRS”	International Financial Reporting Standards as adopted by the EU
“InMotion”	InMotion Entertainment Group, LLC
“J.P. Morgan Cazenove”	J.P. Morgan Securities PLC, which conducts its UK investment banking business as J.P. Morgan Cazenove
“Latest Practicable Date”	22 November 2019
“LFL”	like-for-like
“Listing Rules”	the listing rules made by the FCA pursuant to Part 6 of the FSMA
“London Stock Exchange” or “LSE”	London Stock Exchange PLC
“Long-stop Date”	31 March 2020
“MAR”	the Market Abuse Regulation (Regulation (EU) 596/2014) and its delegated and implementing regulations
“Memorandum of Association”	the memorandum of association of the Company
“MRG”	Marshall Retail Group Holding Company, Inc.
“MRG Debt Facility”	the credit agreement with MRG Holdings Corp., through its wholly owned subsidiaries The Marshall Retail Group, LLC and The Marshall Retail Group, Canada providing for a US$140,000,000 term loan, a US$15,000,000 revolving credit facility and, upon the satisfaction of certain conditions, a US$10,000,000 delayed draw term loan
“MRG Group”	MRG and its subsidiaries, from time to time
“MRG Acquisition Holdings”	MRG Acquisition Holdings, LLC, a Delaware limited liability company wholly owned by the MRG Shareholders
“MRG Profit Forecast”	the guidance for MRG’s sales, EBITDA and EBITDA margin for the year ending 29 December 2019 prepared on the basis of IFRS

"MRG Shareholders"	the shareholders of MRG Acquisition Holdings
"MRG Shares"	the issued and outstanding common stock of MRG
"New Debt Facility"	the term credit facility agreement of £200 million entered into by, among others WH Smith on 17 October 2019
"Non-Executive Directors"	Henry Staunton Suzanne Baxter, Annemarie Durbin, Simon Emeny, Drummond Hall and Maurice Thompson
"Notice of General Meeting"	the notice of the General Meeting set out in this document
"NV"	the US state of Nevada
"Official List"	the Official List of the FCA
"Placing"	the placing of new ordinary shares in WH Smith to institutional investors to raise approximately £155 million before expenses in accordance with the Placing and Sponsor Agreement
"Placing and Sponsor Agreement"	the agreement between the Company, J.P. Morgan Cazenove and Barclays entered into on 17 October 2019 setting out the terms of the Placing and appointing J.P. Morgan Cazenove as sponsor in connection with the Acquisition
"Placing Announcement"	the RNS announcement made by the Company informing Shareholders of the Placing
"Placing Shares"	the new Shares issued in the Placing
"PRA"	Prudential Regulation Authority
"Proxy Form"	the personalised form of proxy accompanying the Notice of General Meeting
"Purchase Price"	the total consideration for the MRG Shares pursuant to the SPA, being US$400 million
"PwC"	PricewaterhouseCoopers LLP, 1 Embankment Place, London WC2N 6RH, United Kingdom
"R&W Policy"	the warranty and indemnity insurance obtained by WH Smith in respect of the warranties and indemnities contained in the SPA
"Registrar"	Computershare Investor Services PLC which is acting as the UK Registrar
"Remuneration Committee"	the remuneration committee of the Board
"Reporting Accountants"	PwC and EY
"Resolution"	the shareholder resolution of WH Smith to be proposed at the General Meeting to approve the Acquisition
"ROIC"	return on invested capital
"Securities Act"	US Securities Act of 1933 as amended and the rules and regulations promulgated thereunder
"Shareholder Approval"	the approval of the Acquisition (as a Class 1 transaction under the Listing Rules) by Shareholders
"Shareholders"	holders of the Shares
"Shares"	the ordinary share capital in WH Smith
"SPA" or "Stock Purchase Agreement"	the Stock Purchase Agreement dated 17 October 2019 between WH Smith, WH Smith USA and MRG Acquisition Holdings, under which WH Smith USA agreed to purchase all of the issued and outstanding common stock of MRG

"Sponsor"	J.P. Morgan Cazenove
"sq. ft."	square foot
"Unaudited Pro Forma Financial Information"	the unaudited pro forma statement of net assets and the unaudited pro forma income statement set out in Part IV (*Unaudited Pro Forma Financial Information of the Enlarged Group*) of this document
"Uncertificated Securities Regulations 2001"	the UK Uncertificated Securities Regulations 2001 (SI 2001/3755)
"United Kingdom" or "UK"	the United Kingdom of Great Britain and Northern Ireland
"United States" or "US"	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia
"US GAAP"	Generally Accepted Accounting Principles of the United States
"WACC"	weighted average cost of capital
"WH Smith Annual Report 2019"	the Company's annual report published in 2019 and incorporated by reference to this document
"WH Smith Annual Report 2018"	the Company's annual report published in 2018 and incorporated by reference to this document
"WH Smith Annual Report 2017"	the Company's annual report published in 2017 and incorporated by reference to this document
"WH Smith LTIP"	the existing WH Smith Long-Term Incentive Plan
"WH Smith USA"	WH Smith USA Holdings Inc., a wholly owned subsidiary of WH Smith

NOTICE OF GENERAL MEETING

WHSmith

(*Incorporated and registered in England and Wales with company number 05202036*)

Registered Office:
Greenbridge Road
Swindon
Wiltshire SN3 3RX
United Kingdom
Tel: +44 (0) 1793 616161
www.whsmithplc.co.uk

NOTICE IS HEREBY GIVEN THAT A GENERAL MEETING of WH Smith PLC (the "**Company**") will be held at 11 am on 18 December 2019 at Herbert Smith Freehills LLP, Exchange House, Primrose Street, London EC2A 2EG to consider and, if thought fit, to pass the following resolution (the "**Resolution**") as an ordinary resolution:

ORDINARY RESOLUTION—Approval of the Acquisition

THAT

the proposed acquisition, by a subsidiary of the Company, of the entire issued and to be issued share capital of Marshall Retail Group Holding Company, Inc., (the "**Acquisition**"), substantially in the manner and on the terms and subject to the conditions of the Stock Purchase Agreement (as defined in, and particulars of which are summarised in the circular of the Company, dated 25 November 2019 (the "**Circular**"), of which the notice convening this General Meeting (the "**Notice**") forms part), together with all other agreements and ancillary arrangements contemplated by the Stock Purchase Agreement, be and are hereby approved and that the directors of the Company (or any duly authorised committee thereof) be and are hereby authorised to make any non-material amendments, variations, waivers or extensions to the terms of the Acquisition or the Stock Purchase Agreement which they in their absolute discretion consider necessary, appropriate or desirable and to take all such steps and to do all such things which they consider necessary, appropriate or desirable to implement, or in connection with, the Acquisition, including, without limitation, the waiver of any conditions to the Stock Purchase Agreement.

By Order of the Board

Ian Houghton
Company Secretary
25 November 2019

Registered Office:
Greenbridge Road
Swindon
Wiltshire SN3 3RX
United Kingdom

Registered in England and Wales No. 05202036

Notes

1. Shareholders are entitled to appoint one or more proxies (who need not be Shareholders) to exercise all or any of their rights to attend and to speak and vote on their behalf at the General Meeting provided that if more than one proxy is appointed, each proxy is appointed to exercise the rights attached to a different share or shares.
2. Shareholders should use the Proxy Form to make the appointment referred to in Note 1 above. Before completing the Proxy Form Shareholders should read the guidance notes on the Proxy Form.
3. As an alternative to completing and returning the printed Proxy Form, you may submit your proxy electronically by accessing www.investorcentre.co.uk/eproxy. For security purposes, you will be asked to enter the control number, your shareholder reference number (SRN) and personal identification number (PIN) to validate the submission of your proxy online. The control number and members' individual SRN and PIN numbers are shown on the printed Proxy Form or email notification.
4. To be valid any Proxy Form and power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand at Computershare Investor Services PLC (at the address shown on the Proxy Form) or at the electronic address provided on the Proxy Form, in each case no later than 11 am on 16 December 2019. Completion and return of a Proxy Form, or electronic proxy appointment, or any CREST Proxy Instruction (as described in Note 5) will not prevent you attending and voting at the General Meeting, if you wish. A member must inform the Company in writing of any termination of the authority of a proxy.
5. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual (available to CREST members via www.euroclear.com). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
6. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by Computershare (CREST participant ID 3RA50) by 11 am on 16 December 2019. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
7. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
8. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

9. The Company specifies that only those ordinary shareholders registered in the register of members of the Company as at 8 pm on 16 December 2019 (or 8 pm on the day that is two days before any adjourned meeting) shall be entitled to attend (either in person or by proxy) and vote at the meeting, or any adjourned meeting, in respect of the number of shares registered in their names at that time. Changes to the register of members after 8 pm on 16 December 2019 (or 8 pm on the day that is two days before any adjourned meeting) shall be disregarded in determining the right of any person to attend and vote at the General Meeting.

10. Any person to whom this Notice is sent who is a person nominated under Section 146 of the Companies Act 2006 ('CA 2006') to enjoy information rights (a 'Nominated Person') may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

11. The statement of the rights of shareholders in relation to the appointment of proxies in Notes 1 to 3 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.

12. Nominated Persons are reminded that they should contact the registered holder of their shares (and not the Company) on matters relating to their investments in the Company.

13. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

14. As at 22 November 2019 (being the latest practicable date prior to the publication of this Notice) the Company's issued share capital consists of 115,058,942 ordinary shares, carrying one vote each and no shares are held in treasury. Therefore, the total voting rights in the Company as at 22 November 2019 are 115,058,942.

15. You may not use any electronic address provided either in this Notice of Meeting or any related documents (including the Proxy Form) to communicate with the Company for any purposes other than those expressly stated.

16. Any member attending the General Meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

17. A copy of this Notice of the General Meeting, and other information required by Section 311A of the Companies Act 2006, can be found at www.whsmithplc.co.uk.

MRG PROFIT FORECAST

1. MRG Profit Forecast

On 17 October 2019, WH Smith announced that it had signed an agreement to acquire the entire issued and to be issued share capital of MRG for US$400 million on a cash and debt-free basis (the "**Acquisition Announcement**").

Included in the Acquisition Announcement and associated analyst and investor presentation was the following guidance for MRG for the financial year ending 29 December 2019:

"*MRG is expected to generate total sales of c.$204 million in the financial year ending December 2019, with an EBITDA margin of greater than 15%, generating an expected EBITDA of c.$31.5 million, which does not fully reflect contribution from stores opened year-to-date.*"

The forecast sales, adjusted EBITDA and EBITDA margin for MRG's financial year ending 29 December 2019 included in the Acquisition Announcement were prepared on the basis of MRG's US GAAP management accounts for the eight months ended 31 August 2019 and the projected financial performance of MRG for the remaining four months of 2019.

As anticipated in the Acquisition Announcement, the summary financial information on MRG included in the Acquisition Announcement (including the above financial information) which had been extracted from and based on MRG's historical financial statements prepared in accordance with US GAAP, differs in some areas from the IFRS financials of MRG included in this document. For more information on the material differences between MRG's historical financial statements prepared in accordance with US GAAP and the IFRS financials of MRG included in this document, see paragraph 5 of Part I (*Chairman's Letter*).

In this document, the following guidance for MRG for the financial year ending 29 December 2019 has been included, which for the purposes of the Listing Rules constitutes a profit forecast (the "**MRG Profit Forecast**"):

"*MRG is expected to generate total sales of approximately US$203 million in the financial year ending 29 December 2019, with an EBITDA margin of greater than 15%, generating an expected adjusted EBITDA of approximately US$31.5 million, which does not fully reflect contribution from stores opened year-to-date.*"

2. Basis of preparation

The MRG Profit Forecast has been properly compiled on the basis of the assumptions stated below and on a basis consistent with the accounting policies of WH Smith Group PLC adopted in its financial statements for the year ended 31 August 2019. The MRG Profit Forecast does not reflect the impact of IFRS 16 which WH Smith PLC expect will apply in respect of its financial statements for the year ended 31 August 2020.

The MRG Profit Forecast has been prepared with reference to:

(i) The unaudited actual results of MRG for the nine months ended 25 September 2019;

(ii) The unaudited sales data for October 2019; and

(iii) The projected financial results of MRG for October, November and December 2019.

The MRG Profit Forecast is a best estimate of the adjusted EBITDA that MRG will generate in the twelve months to 29 December 2019. Accordingly, there is a degree of uncertainty relating to the MRG Profit Forecast and it is based on certain assumptions, which are set out below.

3. Assumptions

The MRG Profit Forecast has been prepared on the basis of the following principal assumptions:

Factors outside the influence or control of MRG's directors:

(i) There will be no material change in the prevailing US macroeconomic and political environment that would materially affect MRG.

(ii) There will be no material change in current trading conditions or performance.

(iii) There will be no material change to MRG's site opening schedule as currently envisaged in its projected financial results for the remainder of 2019.

(iv) There will be no closure of MRG sites other than as currently envisaged in its projected financial results for the remainder of 2019.

(v) There will be no material adverse event that has a significant impact on the number of passengers undertaking air travel from and to the US.

(vi) There will be no material adverse event that has a significant impact on the performance of any site which contributes materially to MRG's profitability.

(vii) There will be no material change to the management of MRG.

(viii) There will be no material change in legislation or regulation impacting on MRG's operations or accounting policies or effective corporate tax rate.

Factors within the influence and control of MRG's directors*:*

(i) There will be no material change in the composition of MRG.

(ii) There will be no material change to the manner in which MRG operates.

(iii) There will be no material changes to the existing running costs or operating costs of MRG.

(iv) Transaction costs, synergy implementation costs and one-off costs associated with the Acquisition are not included.

4. Confirmation

The Board hereby confirms that as at the Latest Practicable Date, the MRG Profit Forecast remains valid and has been properly compiled and prepared on the basis of the assumptions stated and that the basis of accounting used is comparable with MRG's Historical Financial Information included in Part III (*Historical financial information of the MRG Group*) of this document and consistent with WH Smith's accounting policies.

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Toppan Merrill, London
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