Company Number: 610095

Waterstone's Booksellers Limited

Report and Accounts

52 weeks ended 25 April 2009

COMPANY INFORMATION

DIRECTORS

W E Drinkwater
S R Fox
M W Giffin
N J W Jewsbury
G T Johnson
D P Myers
A E D Rayner

SECRETARY

E Marriner

REGISTERED OFFICE

Capital Court
Capital Interchange Way
Brentford
Middlesex
TW8 0EX

COMPANY NUMBER

610095

AUDITORS

Ernst & Young LLP
1 Colmore Square
Birmingham
B4 6HQ

DIRECTORS' REPORT

The Directors submit their report and audited financial statements for the 52 weeks ended 25 April 2009, which were approved on behalf of the Board on 30 October 2009.

Business review

During the period under review, the Company operated as a bookseller through a chain of general bookshops in the United Kingdom and through the Waterstones.com e-commerce website.

At the close of business on 26 April 2008 the Company acquired the trade and net assets relating to the bookstores from HMV Overseas Limited (formerly Ottakar's Limited), a fellow subsidiary undertaking, and the trade and net assets relating to the bookstores owned by HMV Music Limited, a fellow group company, for a total consideration of £84.7m. This reorganisation of these businesses within the HMV Group plc group of companies served to bring all of the UK bookstores together into one legal entity for the first time. These financial statements, therefore, include the net assets of the combined businesses as at 25 April 2009 and 26 April 2008, but the comparative period includes the trading of only the 126 Waterstone's stores that were part of the Company throughout that period.

Trading in the period reflected a challenging and highly promotional book market, which contracted by 2% (after adjusting for the prior year release of *Harry Potter and the Deathly Hallows*). The Company's share of the high street market grew, reflecting in part the success of the multi-channel loyalty scheme, which had 2.8 million members by the period end. The loyalty scheme also contributed to a 60% growth in sales for waterstones.com, though its current share of the fast-growing online market resulted in an overall 0.4% dilution of total market share.

The Company's non-book offer was enhanced by good sales of the Sony E-Reader, a portable electronic device onto which audio books can be downloaded in a digital format, plus the associated download sales of ebooks from waterstones.com. High quality gift stationery ranges and Nintendo DS software and related hardware have also been rolled out to all stores.

The new Waterstone's centralised book hub has taken on stock delivery to stores and fulfilment to online customers, making the way the business operates over the medium and long term more efficient.

During the period, three new stores were opened, eight former Books Etc stores were integrated into the portfolio and 10 existing stores were closed.

Exceptional operating costs of £3.9m (2008: £2.6m) were incurred in the period, relating to store closures in connection with the review of the Company's store portfolio and store restructuring costs as a result of the implementation of the book hub.

The profit after deducting taxation amounted to £2.0m (2008: £0.1m). No dividend (2008: £nil) was paid during the period and the Directors recommend that no final dividend be declared (2008: £nil) with the profit being transferred to reserves. The Company continues to trade successfully and will continue its existing business for the foreseeable future.

Principal risks and uncertainties

The Board of the ultimate parent undertaking, HMV Group plc, has a policy of continuous identification and review of key business risks and uncertainties. It oversees the development of processes to ensure that these risks are managed appropriately and operational management are delegated with the tasks of implementing these processes and reporting to the Board on their outcomes. The principal risks identified by the Board relevant to the Company are the competitive nature of its markets, general sensitivity to changes in economic conditions, the seasonality of the business, monitoring agreements with key suppliers, damage to reputation or brands, maintaining and developing information technology systems and attracting, motivating and retaining key staff.

Directors

The names of the Directors who served throughout the period under review and up to and including the date of this Report are shown on page 1.

On 24 November 2008, Mr N J M Williams resigned as a Director and Mrs A E D Rayner was appointed as a Director of the Company.

DIRECTORS' REPORT (CONTINUED)

Employee policies

The Company is a decentralised organisation with the aim of employing and developing the best people, putting them in the right positions with a significant level of delegated authority and supporting them with the infrastructure and technology required to perform at the highest levels and at the lowest costs with the quickest response time.

Responsibility for employment matters therefore rests primarily with each business operation under the general guidance of central policy and procedural guidelines. The Company is committed to the maintenance of a work environment free of discrimination on the grounds of age, gender, nationality, ethnic or racial origin, non-job related disability, sexual orientation or marital status.

The Company gives full consideration to applications from disabled persons where a disabled person can adequately fulfil the requirements of the job. Where existing employees become disabled, it is the Company's policy, wherever practicable, to provide continuing employment under normal terms and conditions and to provide training, career development and promotion to disabled employees wherever appropriate.

In order to promote employee involvement in the Company, regular meetings are held between local management and employees to allow a free flow of information and ideas.

The Company encourages staff involvement in the performance of its immediate parent undertaking, HMV Group plc, via a combination of employee bonus and share schemes. HMV Group plc has established a Share Incentive Plan in which all the Company's employees are entitled to participate provided they meet certain service conditions.

Policy on payment of creditors

The Company does not impose standard payment terms on its suppliers but agrees specific terms with each and ensures that each supplier is made aware of such terms. It is the Company's policy to pay its suppliers in accordance with the terms that they have agreed. Excluding the trade and net assets of businesses acquired at the end of the period prior, the underlying number of days' purchases outstanding at 25 April 2009 is calculated as 72 days (2008: 74 days).

Charitable donations

The Company made charitable donations of £13,000 in the period under review (2008: £5,000). It is Company policy not to make donations to political parties and therefore no political donations were made during the period.

Auditors

The Directors who were members of the Board at the time of approving the Directors' Report are listed on page 1. Having made enquiries of fellow Directors and of the Company's auditors, each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and
- each Director has taken all steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

A statement of the Directors' responsibility for the financial statements can be found on page 4, which is deemed to be incorporated by reference in (and shall be deemed to form part of) this report.

Elective resolutions to dispense with holdings annual general meetings, the laying of accounts before the Company in general meeting and the appointment of auditors annually are currently in force. Therefore Ernst & Young LLP are deemed to continue as auditors of the Company.

By order of the Board

Elaine Marriner

E Marriner

Secretary

20 October 2009

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The following statement, which should be read in conjunction with the Auditors' statement of their responsibilities, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and the Auditors in relation to the financial statements.

The Directors are responsible for preparing the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

The Directors are required to prepare financial statements for each financial year that present a true and fair view of the financial position of the Company and the financial performance and the cash flows of the Company for that period. In preparing those financial statements, the Directors are required to:

(i) select suitable accounting policies and then apply them consistently;

(ii) present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

(iii) provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and

(iv) state that the Company has complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time, the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Acts 1985 and 2006 as well as Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

We confirm that, to the best of our knowledge:

(i) the financial statements, prepared in accordance with International Financial Reporting Standards, present fairly the assets, liabilities, financial position and profit of the Company; and

(ii) the Directors' Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that the Company may face.

By order of the Board

SIMON FOX
Director
20 October 2009

DOMINIC MYERS
Director
20 October 2009

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WATERSTONE'S BOOKSELLERS LIMITED

We have audited the financial statements of Waterstone's Booksellers Limited for the 52 weeks ended 25 April 2009, which comprise the Income Statement, the Statement of Recognised Income and Expense, the Balance Sheet, the Cash Flow Statement and the related notes 1-32. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Sections 495 and 496 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 25 April 2009 and of its profit for the 52 weeks then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

Steve Bagworth (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham

Date: 22 October 2009

INCOME STATEMENT

For the 52 weeks ended 25 April 2009 and 26 April 2008

	Notes	Before exceptional items 2009 £000	Exceptional items 2009 £000	Total 2009 £000
Revenue	3	521,212	-	521,212
Cost of sales		(483,665)	(3,870)	(487,535)
Gross profit		37,547	(3,870)	33,677
Administrative expenses		(28,577)	-	(28,577)
Other operating income		142	-	142
Operating profit	4	9,112	(3,870)	5,242
Finance revenue	9	-	-	-
Finance costs	9	(1,222)	-	(1,222)
Profit before taxation		7,890	(3,870)	4,020
Taxation	10	(3,037)	999	(2,038)
Profit for the period		4,853	(2,871)	1,982

	Notes	Before exceptional items 2008 £000	Exceptional items 2008 £000	Total 2008 £000
Revenue	3	273,423	-	273,423
Cost of sales		(249,349)	(2,632)	(251,981)
Gross profit		24,074	(2,632)	21,442
Administrative expenses		(22,340)	-	(22,340)
Other operating income		2,580	-	2,580
Operating profit	4	4,314	(2,632)	1,682
Finance revenue	9	169	-	169
Finance costs	9	(28)	-	(28)
Profit before taxation		4,455	(2,632)	1,823
Taxation	10	(2,376)	689	(1,687)
Profit for the period		2,079	(1,943)	136

See Accounting Policies on pages 10 to 14 for the description of the 2009 and 2008 reporting periods.

For details of the exceptional items included above, see note 6.

All results relate to continuing activities.

STATEMENT OF RECOGNISED INCOME AND EXPENSE

For the 52 weeks ended 25 April 2009 and 26 April 2008

	Notes	2009 £000	2008 £000
Profit for the period		**1,982**	136
Foreign exchange translation differences		**1**	2
Tax on items recognised directly in equity	10	**411**	49
Total recognised income and expense for the period		**2,394**	187

BALANCE SHEET

	Notes	As at 25 April 2009 £000	As at 26 April 2008 £000
Assets			
Non-current assets			
Property, plant and equipment	12	**70,012**	65,005
Intangible assets	13	**69,347**	69,347
Investments in subsidiaries	14	**27,261**	90,261
Deferred income tax asset	10	**7,052**	6,219
		173,672	230,832
Current assets			
Inventories	16	**74,969**	77,962
Trade and other receivables	15	**45,377**	42,689
Cash and short-term deposits	17	**8,245**	24,543
		128,591	145,194
Total assets		**302,263**	376,026
Liabilities			
Non-current liabilities			
Interest bearing loans and borrowings	19	**(5,030)**	(519)
		(5,030)	(519)
Current liabilities			
Trade and other payables	18	**(210,973)**	(297,463)
Current income tax payable		**(2,965)**	(1,847)
Interest bearing loans and borrowings	19	**(2,501)**	(243)
Provisions	20	**(4,607)**	(2,629)
		(221,046)	(302,182)
Total liabilities		**(226,076)**	(302,701)
Net assets		**76,187**	73,325
Equity			
Share capital	23	**71,014**	71,014
Retained earnings	25	**5,173**	2,311
Total equity	25	**76,187**	73,325

The financial statements were approved by the Board of Directors on 20 October 2009 and were signed on its behalf by:

SIMON FOX
Director

DOMINIC MYERS
Director

CASH FLOW STATEMENT

For the 52 weeks ended 25 April 2009 and 26 April 2008

	Notes	2009 £000	2008 £000
Cash flows from operating activities			
Profit before tax		**4,020**	1,823
Net finance costs (revenue)		**1,222**	(141)
Depreciation	12	**15,676**	8,707
Profit on disposal of property, plant and equipment		**(208)**	(44)
Equity-settled share-based payment charge	8	**468**	515
		21,178	10,860
Movement in inventories		**2,993**	(329)
Movement in trade and other receivables		**(2,688)**	2,751
Movement in trade and other payables		**(23,086)**	6,019
Movement in provisions		**2,130**	2
Cash generated from operations		**527**	19,303
Income tax paid		**(1,342)**	(790)
Net cash flows from operating activities		**(815)**	18,513
Cash flows from investing activities			
Purchase of property, plant and equipment		**(15,800)**	(7,385)
Proceeds from sale of property, plant and equipment		**899**	188
Inflow from Group businesses acquired		**-**	6,762
Interest received		**-**	121
Net cash flows from investing activities		**(14,901)**	(314)
Cash flows from financing activities			
Interest paid		**(1,251)**	(28)
Repayment of capital element of finance leases		**(866)**	-
Net cash flows from financing activities		**(2,117)**	(28)
Net (decrease) increase in cash and cash equivalents		**(17,833)**	18,171
Opening cash and cash equivalents	17	**24,543**	6,372
Closing cash and cash equivalents	17	**6,710**	24,543

NOTES TO THE FINANCIAL STATEMENTS

1. Authorisation of financial statements and statement of compliance with IFRS

The financial statements of Waterstone's Booksellers Limited for the period ended 25 April 2009 were authorised for issue by the Board on 20 October 2009 and the Balance Sheet was signed on the Board's behalf by S Fox and D Myers. Waterstone's Booksellers Limited is incorporated and domiciled in England and Wales.

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

2. Accounting policies

Basis of preparation

These financial statements are made up to the Saturday on or immediately preceding 30 April each year. Consequently, the financial statements for the current period cover the 52 weeks ended 25 April 2009, whilst the comparative period covered the 52 weeks ended 26 April 2008. The financial statements are prepared in accordance with applicable accounting standards and specifically in accordance with the accounting policies set out below.

The financial statements are presented in Pounds Sterling and are rounded to the nearest thousand except where otherwise indicated. They are prepared on the historical cost basis, except for certain share-based payments that have been measured at fair value.

The Company is exempt from preparing group financial statements as it is itself a subsidiary undertaking under Section 228 of the Companies Act 1985. These financial statements present information about the Company as an individual undertaking and not about its Group.

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. The nature of estimation means that actual outcomes could differ from those estimates.

Key sources of estimation uncertainty

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are the measurement and impairment of goodwill, the measurement of defined benefit pension obligations, the measurement of impairment of property, plant and equipment and the measurement of deferred tax asset. The Company determines whether goodwill is impaired on an annual basis and requires an estimation of the value in use of the cash generating units to which the goodwill is allocated. Measurement of defined benefit pension obligations requires estimation of future changes in salaries and inflation, as well as mortality rates, the expected return on assets and the selection of a suitable discount rate. Measurement of the impairment of property, plant and equipment requires the estimation of the assets' recoverable amount and selection of a suitable discount rate. Measurement of the deferred tax asset requires an assessment of the likely timing and level of future taxable profits.

Investments in subsidiaries

Investments in subsidiaries are recognised at cost less impairments booked. Income is recognised from these investments only in relation to distributions received from post-acquisition profits. Distributions received in excess of post-acquisition profits are deducted from the cost of the investment.

Revenue

Revenue represents the value of goods supplied, less discounts given, and is recognised when goods are delivered and title has passed. It also includes commission earned on ticket sales and similar activities. Revenue excludes value added tax ("VAT") and similar sales-related taxes.

Interest income is accrued on a time basis, by reference to the principal outstanding and the applicable effective interest rate. Dividend income is recognised when the right to receive payment is established. Rental income from sub-let properties is recognised on a straight line basis over the period of the sublease.

Foreign currencies

Transactions denominated in foreign currencies are recorded at the rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into sterling at period end rates. The resulting foreign exchange differences are dealt with in the determination of profit (loss) for the period.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting policies (continued)

Exceptional items

The Group presents as exceptional items on the face of the income statement those material items of income and expense which, because of the nature or expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to better understand the elements of financial performance in the year, so as to facilitate comparison with prior periods and to better assess trends in financial performance. Exceptional items recognised in arriving at operating profit include (but are not limited to) those costs associated with integrating a newly acquired business, impairment losses and costs associated with restructuring the business.

Goodwill

Positive goodwill is capitalised, classified as an asset on the balance sheet and is not amortised. Goodwill is calculated as the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. All capitalised goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Property, plant and equipment

The capitalised cost of property, plant and equipment includes only those costs that are directly attributable to bringing an asset to its working condition for its intended use.

Depreciation of property, plant and equipment is calculated on cost, at rates estimated to write off the cost, less the estimated residual value, of the relevant assets by equal annual amounts over their estimated useful lives.

The annual rates used are:

Plant, equipment and vehicles	10 to 33 $^1/_3$%

The carrying values of property, plant and equipment are reviewed for material impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

Leased assets

In respect of property operating leases, benefits received and receivable as an incentive to sign a lease, such as rent-free periods, premiums payable and capital contributions, are spread on a straight line basis over the lease term. All other operating lease payments are charged directly to the income statement on a straight line basis over the lease term. The Company has a number of lease agreements in which the rent payable is contingent on revenue, which is expenses in the period in which it is incurred.

Assets held under finance leases, which transfer to the Company substantially all the risks and benefits of ownership of the leased assets, are capitalised at the inception of the lease, with a corresponding liability being recognised for the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are apportioned between the reduction of the lease liability and finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the liability. Assets held under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Impairment of assets

The Company assesses at each reporting date whether there are indicators that an asset may be impaired. Assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other groups of assets (cash generating units). If any indicator of impairment exists, or when annual impairment testing is required, the Company makes an estimate of the asset's recoverable amount, being the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash inflows expected to be derived from the asset. Where the asset does not generate cash inflows that are independent from other assets, the recoverable amount of the cash-generating unit to which the asset belongs is estimated. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, an impairment loss is recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting policies (continued)

Impairment of assets

If there is an indication at the reporting date that previously recognised impairment losses no longer exist or may have decreased, the recoverable amount is again estimated. To the extent that the recoverable amount has increased, the previously recognised impairment loss is reversed. An impairment loss in respect of goodwill is not reversed.

Inventories

Inventories are stated at the lower of cost and net realisable value on a first-in, first-out basis. Net realisable value is based on estimated selling prices less further costs to be incurred to disposal.

Taxation

Current tax
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to, the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred tax
Deferred income tax is recognised on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are generally recognised for all temporary differences and deferred income tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability settled, based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date, and is not discounted.

Taxation is charged or credited directly to equity if it relates to items that are themselves charged or credited directly to equity, otherwise it is recognised in the income statement.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Cash and cash equivalents

Cash and short-term deposits comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the cash flow statement, cash and cash equivalents consist of cash and short-term deposits less bank overdrafts that are payable on demand.

Interest bearing loans and borrowings

Interest bearing loans and borrowings are initially recognised at fair value less directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method.

Provisions

A provision is recognised when the Company has a 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. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects the risks specific to the liability.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting policies (continued)

Pension costs

The Company's employees participate in the HMV Group Pension Scheme (the "Scheme"). The Scheme has two sections – the Pension Benefit Section and the Pension Saver Section.

The Pension Benefit Section of the Scheme provides benefits to a number of Group companies. There is no contractual agreement or stated policy for allocating a share of the defined benefit obligation to each participating entity. Consequently, in accordance with the Amendments to IAS 19 Employee Benefits, the Parent Company, HMV Group plc, recognises the net pension obligation for the Scheme as the sponsoring entity of the defined benefit scheme. The Company, as a participating member of the Scheme, accounts for its relevant pension costs on a defined contribution basis.

For the defined contribution scheme, contributions are charged in the income statement as they become payable in accordance with the rules of the scheme.

Share-based payments

A number of share-based payment schemes are operated by the ultimate parent undertaking, HMV Group plc, in which the Company's employees participate. The Company recognises the transfer of equity instruments to its employees as share-based payment transactions within the scope of IFRS 2 *Share-based Payments*.

The cost of equity-settled transactions with employees granted on or after 7 November 2002, which had not vested by 1 January 2005, is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by using an appropriate pricing model.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market performance conditions, and hence the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity. No expense is recognised for awards that do not ultimately vest.

Customer loyalty schemes

The fair value of loyalty points awarded is deferred until the awards are redeemed, after adjustment for the number of points expected never to be redeemed. Fair value is determined by reference to the value for which the points can be redeemed.

New accounting standards

The Company has adopted the following new accounting standards, amendments to accounting standards and interpretations, which are either mandatory for the first time for the financial year ending 25 April 2009 or have been adopted early as appropriate:

- IFRS 8 Operating Segments, effective for periods beginning on or after 1 January 2009. This new accounting standard had no effect on reported income or net assets and liabilities. The required disclosures based on information presented to the Board are given in Note 3. There have been no changes to the reportable segments as a result of this accounting standard.

The following have been adopted but have no material impact on the Company:

- IFRIC 12 Service Concession Arrangements, effective for periods beginning on or after 1 January 2008, subject to endorsement in the EU.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting policies (continued)

New accounting standards (continued)

The Company has not adopted early the requirements of the following accounting standards and interpretations, which have an effective date (shown in brackets) after the date of these financial statements:

- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction, effective for periods beginning on or after 1 January 2008.
- Amendments to IFRS 1 and IAS 27 Cost of an investment in a subsidiary, joint-controlled entity or associate (1 January 2009)
- Amendment to IFRS 2 Share-based payment vesting conditions and cancellations (1 January 2009)
- IFRS 3 (R) Business Combinations (revised 2008) (1 July 2009)
- Amendment to IFRS 7 Improving disclosures about financial instruments (1 January 2009)
- IAS 1 Presentation of Financial Statements (revised 2007) (1 January 2009)
- IAS 23 Borrowing Costs (1 January 2009)
- IAS 27 Consolidated and Separate Financial Statements (revised 2008) (1 July 2009)
- IAS 32 and IAS 1 Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation (1 January 2009)
- IAS 39 Eligible Hedged Items (1 January 2009)
- Amendments to IFRIC 9 and IAS 39 Embedded derivatives (June 2009)
- Amendment to IAS 39 and IFRS 7 Reclassification of financial assets (1 July 2008)
- Amendment to IAS 39 and IFRS 7 Reclassification of financial assets: effective date and transition (1 July 2008)
- IFRIC 15 Agreements for the Construction of Real Estate (1 January 2009)
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (1 October 2008)
- IFRIC 17 Distribution of Non-cash Assets to Owners (1 July 2009)
- IFRIC 18 Transfer of Assets from Customers (1 July 2009)
- Improvements to IFRS (Various effective dates)

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Company's financial statements.

The effective dates stated are those given in the original IASB/IFRIC standards and interpretations. As the Company prepares its financial statements in accordance with IFRS as adopted by the European Union, the application of new standards and interpretations will be subject to their having been endorsed for use in the EU via the EU endorsement mechanism.

3. Revenue

Revenue disclosed in the income statement is analysed as follows:

	2009 £000	2008 £000
Sale of goods	**521,212**	273,423
Finance revenue (see Note 9)	**-**	169
Total	**521,212**	273,592

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Operating profit

	2009 £000	2008 £000
Operating profit is stated after charging (crediting):		
Depreciation of property, plant and equipment .	**15,676**	8,707
Cost of inventories recognised as expense	**297,593**	155,972
Write down of inventories	**1,021**	628
Auditor remuneration	**49**	49
Operating lease rentals		
Minimum rentals	**59,216**	29,915
Percentage rentals	**679**	706
Sublease rentals	**(1,009)**	(588)
	58,886	30,033

The Company leases stores under non-cancellable operating lease agreements that are generally subject to periodic rent review. These agreements provide for either or both minimum rentals and percentage rentals based on sales performance.

5. Fees to auditors

	2009 £000	2008 £000
Audit of the financial statements	**32**	22

The audit fee disclosed above represents the statutory audit fee for the Company. However, the Company also bore the cost of the audit of another Group company, resulting in the higher amount disclosed as auditor remuneration in Note 5.
Fees to auditors for other non-audit services have not been disclosed in accordance with the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 (Statutory Instrument 2008/419). This information is required and disclosed in the consolidated accounts of the parent company, HMV Group plc.

6. Exceptional items

	2009 £000	2008 £000
Recognised in arriving at operating profit:		
Store closure costs	**1,570**	2,632
Store restructuring costs	**2,300**	-
	3,870	2,632

Included within cost of sales are exceptional costs of £1,570,000 (2008: £2,632,000) relating to store closures in connection with the review of the Company's store portfolio following the acquisition of Ottakar's and £2,300,000 (2008: £nil) of store restructuring costs as a result of the implementation of the new Waterstone's book hub. A tax credit of £999,000 (2008: £689,000) arose in respect of these costs.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. Directors' emoluments

	2009 £000	2008 £000
Emoluments	**913**	1,712
Pension contributions	**120**	33
Termination benefits	**-**	80
	1,033	1,825

Mr Fox, Mr Myers and Mr Williams were paid by other Group companies for their services to the Group as a whole.

Retirement benefits are accruing to seven of the Directors under defined benefit pension schemes (2008: seven). None of the Directors exercised options over Ordinary Shares in the parent company, HMV Group plc (2008: none). All of the Directors are entitled to receive shares in HMV Group plc under a long-term incentive scheme.

The amounts in respect of the highest paid Director were as follows:

	2009 £000	2008 £000
Aggregate emoluments	**312**	671
Pension contributions	**45**	33
	357	704

The pension entitlements of the highest paid Director were as follows:

	2009 £000	2008 £000
Accumulated total accrued pension	**14**	10

8. Employee costs

	2009 £000	2008 £000
Employee costs, including Directors' emoluments:		
Wages and salaries	**68,603**	38,476
Social security costs	**6,786**	3,078
Other pension costs (see Note 28)	**1,250**	924
	76,639	42,478

Included in wages and salaries is a total charge for equity-settled share-based payments of £468,000 (2008: £515,000).

The average number of people employed by the Company during the period in retail was 5,153 (2008: 2,373).

9. Net finance costs

	2009 £000	2008 £000
From parent and fellow subsidiary undertakings	**-**	169
Total finance revenue	**-**	169
External loans and overdrafts	**(56)**	(28)
To parent and fellow subsidiary undertakings	**(1,166)**	-
Total finance costs	**(1,222)**	(28)
Total net finance (costs) revenue	**(1,222)**	141

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. Taxation

	2009 £000	2008 £000
Taxation recognised in the income statement:		
United Kingdom, current year:		
Corporation tax	**2,460**	1,328
Deferred tax:		
United Kingdom	**(422)**	359
Total taxation expense in the income statement	**2,038**	1,687

The tax expense in the current year includes a credit of £999,000 (2008: £689,000) in relation to the exceptional operating costs of £3,870,000 (2008: £2,632,000), details of which can be found in Note 6.

The effective tax rate on ordinary activities is 38.3% (2008: 53.3%).

The tax charge is reconciled with the standard rate of UK corporation tax as follows:

	2009 £000	2008 £000
Profit before taxation	**4,020**	1,823
Corporation tax at UK average statutory rate of 28% (2008: 29.83%)	**1,126**	544
Effects of:		
Permanent disallowables	**648**	223
Permanent disallowables on exceptional items	**85**	96
Temporary differences relating to prior year periods	**179**	516
Deferred tax rate change	**-**	308
Total tax charge	**2,038**	1,687

Tax relating to items charged directly to equity is as follows:

	2009 £000	2008 £000
Deferred taxation relating to share-based payments	**(411)**	(49)
Tax credit in the statement of recognised income and expense	**(411)**	(49)

Deferred Tax

The deferred income tax asset included in the balance sheet is as follows:

	2009 £000	2008 £000
Accelerated depreciation for tax purposes	**6,661**	6,297
Other temporary differences	**391**	(78)
	7,052	6,219

Deferred tax in the income statement
The deferred tax included in the income statement is as follows:

	2009 £000	2008 £000
Accelerated depreciation for tax purposes	**(346)**	53
Other	**(76)**	306
	(422)	359

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. Acquisition of businesses

On 26 April 2008 the Company acquired the trade and assets relating to 134 bookstores of HMV Overseas Limited (formerly Ottakar's Limited), a subsidiary undertaking, and the trade and assets relating to 46 bookstores from HMV Music Limited, a fellow group company. The stores transferred have been trading under the Waterstone's brand name and it is expected that they will continue to do so for the foreseeable future. Cash consideration of £75,094,000 was paid for the HMV Overseas Limited bookstores, which had net assets of £5,747,000, giving rise to goodwill of £69,347,000 (see Note 13). The cash consideration of £9,627,000 in respect of the acquisition of bookstores from HMV Music Limited equated to the value of net assets acquired and consequently no goodwill arose from this transaction. The fair value of the net assets acquired equated to the book values, which were as follows:

	From HMV Overseas Limited	From HMV Music Limited	Total
	£000	£000	£000
Property, plant and equipment	20,274	8,001	28,275
Trade and other receivables	11,625	7,349	18,974
Deferred income tax	517	1,385	1,902
Inventories	25,226	15,737	40,963
Cash and short-term deposits	6,762	-	6,762
Trade and other payables	(55,702)	(22,775)	(78,477)
Interest bearing loans and borrowings	(762)	-	(762)
Provisions	(1,125)	(60)	(1,185)
Intercompany balances	(1,068)	-	(1,068)
	5,747	9,637	15,384
Goodwill arising on acquisition	69,347	-	69,347
Consideration	75,094	9,637	84,731

12. Property, plant and equipment

	Plant, equipment and vehicles
	£000
Cost at 28 April 2007	129,587
Disposals	(5,037)
Acquisition of businesses (see Note 11)	28,275
Additions	7,385
Cost at 26 April 2008	160,210
Disposals	(3,944)
Additions	21,900
Cost at 25 April 2009	**178,166**
Depreciation at 28 April 2007	90,422
Charge for period	8,707
Disposals	(3,924)
Depreciation at 26 April 2008	95,205
Charge for period	15,676
Disposals	(2,727)
Depreciation at 25 April 2009	**108,154**
Net book value at 25 April 2009	**70,012**
Net book value at 26 April 2008	65,005
Net book value at 28 April 2007	39,165

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Property, plant and equipment (continued)

The carrying value of plant and equipment held under finance leases at 25 April 2009 was £6,696,000 (2008: £762,000), of which £6,100,000 (2008: £nil) is included within additions during the year. Leased assets are pledged as security for the related finance lease.

13. Intangible assets

	Goodwill £000
Cost and net book value at 28 April 2007	-
Additions	69,347
Cost and net book value as at 25 April 2009 and 26 April 2008	**69,347**

On 26 April 2008 the Company acquired the trade and assets of its subsidiary undertaking, HMV Overseas Limited (formerly Ottakar's Limited). Cash consideration of £75,094,000 was paid for net assets of £5,747,000 giving rise to goodwill of £69,347,000 (see Note 11).

The carrying value of the goodwill is subject to an annual impairment review so as to ensure that the carrying amount is not greater than the recoverable amount. The recoverable amount is determined from a value in use calculation with regard to the portfolio of stores acquired. The value in use incorporates cash flow projections based on budgets approved by senior management over a five year period. Cash flows beyond the five years have been extrapolated using a 1% (2008: 1%) growth rate. This rate does not exceed the average long term growth rate of the relevant market. The pre-tax discount rate applied to cash flow projections is 10% (2008: 10%) based on an adjusted WACC for the Company. On the basis of the impairment review undertaken, no impairment of the capitalised goodwill was required. The calculation of value in use is sensitive to assumptions made with respect to sales forecasts, gross margin and discount rates. To illustrate, the recoverable amount would reduce to a value equal to the carrying amount if sales reduce 7%, gross margin rate reduces by 3% or the discount rate increases by 3%.

14. Investments: subsidiaries

	Cost £000	Provision £000	Net book value £000
At 28 April 2007 and 26 April 2008	90,261	-	90,261
Distributions received	(63,000)	-	(63,000)
At 25 April 2009	**27,261**	-	**27,261**

The Company's principal subsidiary undertakings, which are 100% directly owned, are as follows:

Name of undertaking	Country of incorporation	Activity
HMV Overseas Limited (formerly Ottakar's Limited)[1]	England & Wales	Non-trading
Fine Recordings Club Limited	England & Wales	Non-trading

[1] On 3 July 2006 the Company acquired for cash the entire share capital of Ottakar's Limited. On 26 April 2008 the Company acquired the trade and net assets relating to 134 bookstores of Ottakar's Limited (see Note 11). On 19 August 2008, Ottakar's Limited changed its name to HMV Overseas Limited.

During the 52 weeks ended 25 April 2009, the Company received a dividend of £63,000,000 from HMV Overseas Limited (2008: £nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. Trade and other receivables

	2009 £000	2008 £000
Current:		
Trade receivables	**3,219**	3,314
Amounts owed by parent and fellow subsidiary undertakings	**2,192**	2,990
Other receivables	**6,680**	6,804
Prepayments and accrued income	**33,286**	29,581
	45,377	42,689

The carrying value of trade and other receivables approximates to fair value.

Trade receivables are stated net of a provision for impairment of £465,000 (2008: £464,000). Credit risk is limited as the Company has minimal levels of trade receivables due to the nature of its retailing business. See Note 21 for a discussion of credit risk. Trade and other receivables are non-interest bearing and are generally on 30 day terms. See note 30 for the terms and conditions relating to related party receivables.

16. Inventories

Inventories primarily comprise finished goods and goods for resale. The replacement cost of inventories is considered to be not materially different from the balance sheet value.

17. Cash and short-term deposits

For the purposes of the cash flow statement, cash and cash equivalents comprise the following:

	2009 £000	2008 £000
Cash at bank and in hand	**8,245**	24,543

Cash at bank earns interest at floating rates based on daily bank deposit rates. For the purposes of the cash flow statement, cash and cash equivalents comprise the following:

	2009 £000	2008 £000
Cash at bank and in hand	**8,245**	24,543
Bank overdrafts	**(1,535)**	-
	6,710	24,543

18. Trade and other payables

	2009 £000	2008 £000
Current:		
Trade payables	**56,944**	64,169
Amounts owed to parent and fellow subsidiary undertakings	**86,495**	173,160
Other payables	**35,374**	30,986
Accruals and deferred income	**32,160**	29,148
	210,973	297,463

The carrying value of trade and other payables approximates to fair value. Trade payables are not interest-bearing and are generally settled on 30-90 day terms. Other payables and accruals are not interest-bearing. Of the amounts owed to parent and fellow subsidiary undertakings, £9,137,000 (2008: £20,000,000) is repayable on demand, and on which interest is charged at the Bank of England base rate prevailing at the date of inception. The remaining amounts owed to parent and fellow subsidiary undertakings relates to intercompany trading and is settled monthly with no interest charged. See note 30 for the terms and conditions relating to related party payables.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. Interest bearing loans and borrowings

	2009	2008
	£000	£000
Non-current:		
Obligations under finance leases (see Note 29)	5,030	519
	5,030	519
Current:		
Obligations under finance leases (see Note 29)	966	243
Bank overdrafts	1,535	-
	2,501	243

The carrying value of interest bearing loans and other borrowings approximates to fair value.

20. Provisions

	Total
	£000
At 26 April 2008	2,629
Provisions utilised	(1,892)
Charged during the year	3,870
At 25 April 2009	**4,607**

Provisions almost entirely consist of amounts in respect of store closures and restructuring. The utilisation of provisions in the year largely reflects store closures relating to the integration of Ottakar's. Of the £3,870,000 provision created in the year £1,570,000 related to store closures in connection with the review of the Company's store portfolio and £2,300,000 was in respect of store restructuring costs as a result of the implementation of the new Waterstone's book hub. All provisions are expected to be utilised in the forthcoming year.

21. Financial risk factors

The Company's business exposes it to certain limited financial risks, such as liquidity risk, interest rate risk, credit risk and foreign exchange risk. The risks are managed by the HMV Group ("the Group") Treasury department, which applies policies approved by the Group Board of Directors to the Company.

Liquidity risk
The Group has sufficient funds and facilities available to satisfy its current requirements. The Company is a Guarantor to the Group's £220m revolving credit facility (see Note 26). The Company has access to intra-group funding if and when required. However, the Company had a positive cash balance at 25 April 2009 (see Note 17).

Under the Group's banking arrangements, overdraft and cash balances of the Company and certain other Group companies are pooled or offset and cross-guaranteed.

Analysis of the maturity profile of the Company's financial liabilities at 25 April 2009 is shown below:

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
	£000	£000	£000	£000	£000	£000
Bank overdrafts	1,535	-	-	-	-	1,535
Finance lease	-	-	966	3,077	1,953	5,996
Trade and other payables	9,137	201,836	-	-	-	210,973
At 25 April 2009	**10,672**	**201,836**	**966**	**3,077**	**1,953**	**218,504**
Bank overdrafts	-	-	-	-	-	-
Finance lease	-	-	243	519	-	762
Trade and other payables	20,000	277,463	-	-	-	297,463
At 26 April 2008	20,000	277,463	243	519	-	298,225

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21. Financial risk factors (continued)

Interest rate risk
The Company is exposed to interest rate risk from its borrowings and cash deposits. However, the strong seasonality to the Company's trading pattern provides a natural hedge against interest rate risk. The net exposure is monitored on a regular basis.

Credit risk
The Company's credit risk arises from its cash and outstanding receivables. The Company deposits cash balances with counter parties that have a strong credit rating, with an agreed limit for each counter party, so as to limit the risk of loss arising from a failure.

Due to the nature of the Company's retailing business credit risk from trade receivables is limited. Allowances are made for doubtful debts based on the age of the debt and the customer's financial circumstances.

Foreign exchange risk
Forward foreign exchange contracts are used to hedge the foreign exchange risk of imports where volumes are significant. No speculative positions are entered into. No foreign currency contracts were outstanding at 25 April 2009 (2008: £nil).

22. Additional cash flow information

Movements in the Company's net debt position are as follows:

	At 26 April 2008	Cash flow	Other non-cash changes	**At 25 April 2009**
	£000	£000	£000	**£000**
Cash at bank and in hand	24,543	(16,298)	-	**8,245**
Bank overdrafts	-	(1,535)	-	**(1,535)**
Cash and cash equivalents	24,543	(17,833)	-	**6,710**
Loans and borrowings – non-current	(519)	-	(4,511)	**(5,030)**
Loans and borrowings – current	(243)	866	(1,589)	**(966)**
Total loans and borrowings	(762)	866	(6,100)	**(5,996)**
Net debt	23,781	(16,967)	(6,100)	**714**

	At 28 April 2007	Cash flow	Other non-cash changes	At 26 April 2008
	£000	£000	£000	£000
Cash at bank and in hand	6,372	11,409	6,762	24,453
Bank overdrafts	-	-	-	-
Cash and cash equivalents	6,372	11,409	6,762	24,543
Loans and borrowings – non-current	-	-	(519)	(519)
Loans and borrowings – current	-	-	(243)	(243)
Total loans and borrowings	-	-	(762)	(762)
Net debt	6,372	11,409	6,000	23,781

Other non-cash changes in the current year represents finance lease funding obtained and in the prior year represents balances transferred in from other Group businesses upon acquisition (see Note 11).

23. Share capital

	2009	2008	**2009**	2008
	Number '000	Number '000	**£000**	£000
Authorised				
Ordinary Shares of £1 each	**121,014**	121,014	**121,014**	121,014
Allotted, called up and fully paid				
Ordinary Shares of £1 each	**71,014**	71,014	**71,014**	71,014

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. Share-based payments

Equity-settled share option plan

Certain of the Company's employees participate in an equity-settled share option plan of the ultimate parent undertaking, HMV Group plc, the HMV Group plc 2002 Executive Share Option Scheme (the '2002 Scheme'). This scheme was used for grants of options from 2002 until the financial year ended 28 April 2007, when it was replaced with the HMV Performance Share Plan (PSP).

Options were granted at the five-day average of the market value of HMV Group plc's shares on the date of grant. The options can normally only be exercised after three years and then subject to the achievement of earnings per share targets imposed at the date of grant. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the option vests or before vested options are exercised.

There was no charge for share options in the year ended 25 April 2009 (2008: £nil).

The movements in the number of share options during the year are detailed in the table below. The options outstanding at 25 April 2009 had a weighted average exercise price of 167p (2008: 224p) and a weighted average remaining contractual life of 3.1 years (2008: 6.5 years).

	2009	2009	2008	2008
	Options	Weighted average exercise price	Options	Weighted average exercise price
	Number	Pence	Number	Pence
Outstanding at beginning of period	**704,913**	**224**	1,388,390	230
Lapsed during the period	**(538,013)**	**242**	(761,003)	235
Transferred from other Group companies	-	-	77,526	220
Outstanding at end of the period[1]	**166,900**	**167**	704,913	224
Exercisable at end of the period	**166,900**	**167**	169,649	167

1 Included within this balance are options over 166,900 (2008: 169,649) shares that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

	2009	2009	2008	2008
	Options outstanding	Weighted average remaining contractual life	Options outstanding	Weighted average remaining contractual life
	Number	Years	Number	Years
2002 Executive Share Option Scheme				
Exercise price 167p	**166,900**	**3.1**	169,649	4.1
Exercise price 242p	-	-	535,264	7.2
	166,900	**3.1**	704,913	6.5

The fair value of equity-settled share options granted is estimated as at the date of grant using the Black Scholes model. No options were granted in the financial year under review or in the previous financial year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

24. Share-based payments (continued)

Equity-settled deferred annual bonus

Certain of the Company's Directors and senior management are eligible for a deferred annual bonus that is equity-settled in the shares of the ultimate parent undertaking, HMV Group plc. This is the HMV Group plc Incentive Plan for Senior Executives (HIPS). Under this arrangement, a deferred annual bonus is awarded in shares, with the number of shares determined by reference to the market value of shares at the time the award is made, not when it is paid. The deferred award normally vests following the third anniversary of the end of the financial year in which the award is made, subject to the performance of the individual.

The charge in respect of deferred awards during the period ended 25 April 2009 was £41,000 (2008: £3,000).

The number and weighted average fair values of, and movements in, deferred share awards during the year are as follows:

	2009	**2009**	2008	2008
	Share awards	**Weighted average fair value**	Share awards	Weighted average fair value
	Number	**Pence**	Number	Pence
Outstanding at beginning of period	**15,780**	**242**	34,251	239
Granted during the period	**170,747**	**108**	-	-
Vested during the period	**(3,945)**	**242**	(4,618)	237
Lapsed during the period	**(11,835)**	**242**	(13,853)	237
Outstanding at end of the period	**170,747**	**108**	15,780	242

Of the outstanding balance, the assessment of performance conditions at April 2009 will result in nil (2008: 11,835) share awards lapsing after the period end, whilst nil (2008: 3,945) share awards will vest.

Equity-settled Performance Share Plan (PSP)

Under the PSP certain employees are granted an award of shares of the ultimate parent undertaking, HMV Group plc, which vest after three years provided that preset performance criteria are met. The number of shares awarded is determined by reference to the market value of shares and the fair value of the award is adjusted for expected dividend income during the vesting period. The charge in respect of the PSP during the year ended 25 April 2009 was £427,000 (2008: £512,000).

The number and weighted average fair values of, and movements in, PSP awards during the year are as follows:

	2009	**2009**	2008	2008
	Share awards	**Weighted average fair value**	Share awards	Weighted average fair value
	Number	**Pence**	Number	Pence
Outstanding at beginning of period	**2,416,031**	**133**	807,455	162
Granted during the period	**989,024**	**108**	1,642,203	115
Exercised during the period	**(3,150)**	**162**	(437)	162
Transfers from other Group companies	**(7,769)**	**162**	227,509	162
Lapsed during the period	**(115,589)**	**139**	(260,699)	132
Outstanding at end of the period	**3,278,547**	**126**	2,416,031	133

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. Reconciliation of movements in equity

	Share capital	Retained earnings	Total
	£000	£000	£000
At 28 April 2007	71,014	1,609	72,623
Total recognised income and expense for the period	-	187	187
Charge for share-based payments	-	515	515
At 26 April 2008	71,014	2,311	73,325
Total recognised income and expense for the period	-	2,394	2,394
Charge for share-based payments	-	468	468
At 25 April 2009	**71,014**	**5,173**	**76,187**

The capital of Waterstone's Booksellers Limited is the total equity on the Company's balance sheet. The objective of the Company's capital management is to grow its retailing business and deliver improving returns for its parent company, HMV Group plc. The management of the Company's capital is performed by the Board of Directors. There are no externally imposed capital requirements.

26. Contingent liabilities

The management of Waterstone's Booksellers Limited is not aware of any legal or arbitration proceedings pending or threatened against the Company which may result in any liabilities significantly in excess of provisions in the financial statements.

HMV Group plc entered into a new syndicated bank Facility Agreement, replacing the previous agreement, which at 25 April 2009 consisted of a £220m revolving credit facility. The borrowings under the Facility Agreement are secured by the Guarantors, which include Waterstone's Booksellers Limited. Security comprising first ranking fixed and floating charges in favour of the lenders under the Facility Agreement has been granted over all assets and undertakings of the Guarantors.

27. Pension arrangements

Waterstone's Booksellers Limited's employees participate in the HMV Group Pension Scheme (the "Scheme"). The Scheme has two sections – the Pension Saver Section and the Pension Benefit Section. In respect of the Pension Benefit Section, there is no contractual agreement or stated policy for charging the net defined benefit cost measured in accordance with IAS 19 to individual group entities. As a consequence, the Company recognises a pension cost equivalent to the contribution payable during the financial period. Information in respect of the Pension Benefit Section as a whole is given below.

Pension Saver Section

The Pension Saver Section is of the defined contribution type and is open to all permanent and temporary staff of the Group aged between 18 and 64 years. Members can choose to pay from 2% to 5% of pensionable pay. The Group matches the amount paid by the member up to a maximum of 5% of pensionable pay. Members have a choice of ways to invest their and the Group's contributions in an individual fund to buy pension benefits of their choice. The Company's actual employer contributions to the Pension Saver Section for the year ended 25 April 2009 were £0.5m (2008: £0.3m).

Pension Benefit Section

The Pension Benefit Section is of the defined benefit type and is an Inland Revenue exempt approved scheme for the purpose of the Income and Corporation Taxes Act 1988. It is contracted out of SERPS.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27. Pension arrangements (continued)

A valuation is undertaken on at least a triennial basis by a qualified actuary. The most recently completed actuarial valuation was as at 30 June 2007 and was based on an assumed investment return of 5.0% to 6.75% a year, salary increases of 3.0% a year, and annual pension increases of 2.5% to 3.0%, and used the projected unit method. The result of the valuation was a level of asset cover of 94%, representing a funding deficit of £5.1m, which is being funded by three special contributions of £2.17m on 31 October 2008, 1 May 2009 and 1 May 2010. The valuation reflected a number of changes to the Scheme effective from 1 November 2008, as follows:

- future increases to pensionable salaries are capped at the lower of RPI and 5% p.a.
- pension increases in respect of service from 1 November 2008 are capped at the lower of RPI and 2.5% p.a.
- regular funding rates increased to 21.2% of pensionable pay from 19.9% previously. The increased regular funding is being met through higher member contributions, with the previous rate of 5.0% of pensionable pay increasing from 1 November 2008 to 6.5% for non-executive members and 10.0% for executive members, with the Group's contribution rate moving from 14.9% of pensionable pay to 14.7% for non-executive members and 22.5% for executive members.
- the Group has agreed to settle directly the administrative costs of the Scheme.

The curtailment of the Scheme due to the cap on pensionable salary resulted in a £5.6m past service cost credit, which has been recognised in the income statement of HMV Group plc as an exceptional item. The next actuarial review will take place no later than 30 June 2010.

The Scheme was generally closed to new members with effect from 1 January 2002, with the exception of 543 members who transferred into the Scheme on 31 May 2003 from the EMI Group Pension Fund as a result of the Group's flotation on the London Stock Exchange. Total Group employer contributions to the Pension Benefit Section for the year ended 25 April 2009 were £2.5m (2008: £2.6m). Of this the Company contributed £0.8m (2008: £0.6m). The total Group contributions to the defined benefit plans for the financial year commencing on 26 April 2009 are expected to be £2.5m. Of this the Company is expected to contribute £0.8m.

Amounts reflected in the financial statements in respect of the defined benefit pension scheme are determined with the advice of independent qualified actuaries, Watson Wyatt LLP, on the basis of annual valuations using the projected unit funding method. Scheme assets are stated at their market value at the respective balance sheet dates. The major assumptions used in the calculations are as follows:

	As at 25 April 2009 % per annum	As at 26 April 2008 % per annum
Rate of price inflation	**3.6**	3.5
Rate of salary increase	**3.6**	5.0
Rate of increase for pensions in payment	**3.4**	3.3
Rate used to discount scheme liabilities	**6.5**	6.2
Expected rate of return on equities	**8.2**	8.1
Expected rate of return on bonds	**6.2**	6.2
Expected rate of return on index-linked bonds	**4.6**	4.6

The expected rate of return on Scheme assets is based on external historical and forecast market information.

The post-retirement mortality assumptions used as at 25 April 2009 and 26 April 2008 are in line with the actuarial funding valuation as at 30 June 2007. They reflect the pensioner mortality 00 series tables rated up one year and based on year of use with allowance for medium cohort improvements applying from 2000 subject to a minimum of 1% per annum. These bases imply the following life expectancies:

	2009 At age 65 for someone currently age 65	**2009 At age 65 for someone currently age 50**	2008 At age 65 for someone currently age 65	2008 At age 65 for someone currently age 50
Male	**21.4**	**22.9**	21.3	23.1
Female	**23.8**	**25.3**	23.6	25.5

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27. Pension arrangements (continued)

Other non-financial assumptions are consistent with those used in the last complete actuarial valuation of the Scheme as at 30 June 2007.

The assets and liabilities of the Scheme at the end of the period were:

	As at 25 April 2009	As at 26 April 2008
	£m	£m
Equities	**38.1**	42.4
Bonds	**18.7**	20.3
Index-linked bonds	**18.9**	20.3
Other	**0.7**	0.2
Total market value of assets	**76.4**	83.2
Actuarial value of scheme liabilities	**(97.1)**	(99.1)
Deficit in the Scheme	**(20.7)**	(15.9)
Deferred tax	**5.8**	4.5
Net pension liability	**(14.9)**	(11.4)

The pension plans have not invested in any of the Group's own financial instruments nor in properties or other assets used by the Group.

Changes in the fair value of the assets are analysed as follows:

	2009 £m	2008
Total market value of assets at the beginning of the period	**83.2**	84.1
Employer contributions	**4.6**	2.5
Employee contributions	**0.8**	0.8
Benefits paid	**(1.1)**	(4.6)
Expected return of plan assets	**5.6**	5.6
Actuarial loss	**(16.7)**	(5.2)
Total market value of assets at the end of the period	**76.4**	83.2

Changes in the present value of the Scheme liabilities are analysed as follows:

	2009 £m	2008 £m
Defined benefit pension obligations at the beginning of the period	**(99.1)**	(106.1)
Current service cost	**(3.4)**	(3.8)
Past service credit	**5.6**	-
Interest on pension scheme liabilities	**(6.1)**	(5.7)
Employee contributions	**(0.8)**	(0.8)
Benefits paid	**1.1**	4.6
Actuarial gain	**5.6**	12.7
Defined benefit pension obligations at the end of the period	**(97.1)**	(99.1)

28. Capital commitments

	2009	2008
	£000	£000
Capital expenditure: contracted but not provided	**410**	2,520

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29. Obligations under leases

Obligations under operating leases

The Company operates entirely from properties in respect of which commercial operating leases have been entered into. These leases have an average remaining duration of 10 years. At the end of the period, future minimum rentals payable under non-cancellable operating leases were as follows:

	Land and buildings		Other	
	2009	2008	**2009**	2008
	£000	£000	**£000**	£000
Not later than one year	**61,291**	58,163	**219**	-
Between two and five years inclusive	**205,878**	194,344	**195**	-
After five years	**213,595**	264,647	**-**	-
	480,764	517,154	**414**	-

The Company has also sublet space in certain properties. The future minimum sublease payments expected to be received under non-cancellable sublease agreements as at 25 April 2009 is £4,257,000 (2008: £7,227,000).

Obligations under finance leases

On the acquisition of 134 bookstores from HMV Overseas Limited (formerly Ottakar's Limited) (see Note 11) the Company acquired certain plant and equipment with related finance lease liabilities. These leases have no terms of renewal, purchase options or escalation clauses. At the end of the period, future minimum payments under finance leases were as follows:

	2009	2008
	£000	£000
Present value of minimum lease payments:		
Not later than one year	**966**	243
Between two and five years inclusive	**3,046**	519
After five years	**1,984**	-
	5,996	762

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30. Related party transactions

During the period the Company entered into transactions in the ordinary course of business with related parties. Transactions entered into and balances outstanding at the end of the period are as follows:

	Services received from related party	Services rendered to related party	Amounts owed by related party	Amounts owed to related party
	£000	£000	£000	£000
With ultimate parent company				
2009	**792**	**-**	**-**	**9,457**
2008	885	-	-	20,184
With fellow subsidiaries				
2009	**-**	**726**	**2,192**	**77,038**
2008	-	3,421	2,990	152,976

Included within amounts owed to related parties is £9.1m (2008: £20.0m) of intercompany loans, repayable on demand, on which interest is charged at the Bank of England base rate prevailing at the date of inception and in the prior year a further £84.7m related to the acquisition of various trade and assets from other Group companies (see note 11). The remaining amounts owed by and to related parties related to intercompany trading balances which are settled regularly with no interest charge.

The Company's employees participate in the HMV Group Pension Scheme, which has two sections – the Pension Saver Section and the Pension Benefit Section. In respect of the Pension Benefit Section, there is no contractual agreement or stated policy for charging the net defined benefit cost measured in accordance with IAS 19 to individual Group entities. As a consequence, the Company recognises a pension cost equivalent to the contributions payable during the financial period. Further details are given in Note 27.

A number of share-based payment schemes are operated by the ultimate parent undertaking, HMV Group plc, in which the Company's employees participate. The Company recognises the transfer of equity instruments to its employees as share-based payment transactions within the scope of IFRS 2 *Share-based Payments*. Further details are given in Note 24.

Remuneration of key management personnel

The remuneration of the Directors of the Company is set out in Note 7.

31. Going concern

The Directors report that having reviewed current performance and forecast they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

The ultimate parent undertaking, HMV Group plc, has committed to provide the Company with continued financial support to assist in meeting liabilities as and when they fall due.

32. Ultimate parent undertaking

The immediate and ultimate parent undertaking of the Company for which Group financial statements are drawn up and of which the Company is a member is HMV Group plc. Copies of these financial statements can be obtained from the Company Secretary, HMV Group plc, Shelley House, 2-4 York Road, Maidenhead, Berkshire, SL6 1SR.