

Company Number: 00610095

# **Waterstones Booksellers Limited**

(formerly Waterstone's Booksellers Limited)

## **Report and Accounts**

**52 weeks ended 28 April 2012**

TUESDAY



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**WATERSTONES BOOKSELLERS LIMITED****REPORT AND ACCOUNTS 2012**

(formerly Waterstone's Booksellers Limited)

**Company Number: 00610095**

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**COMPANY INFORMATION****DIRECTORS**

R B Childs (Appointed 6 August 2010, resigned 28 June 2011)

S R Fox (Resigned 28 June 2011)

M W Giffin (Resigned 30 November 2011)

D P Myers (Resigned 28 June 2011)

S West (Resigned 28 June 2011)

A J Daunt (Appointed 28 June 2011)

M T Miles (Appointed 23 November 2011)

**SECRETARY**

E Marriner (Resigned 28 June 2011)

M W Giffin (Appointed 28 June 2011, resigned 30 November 2011)

M T Miles (Appointed 30 November 2011)

**REGISTERED OFFICE**

Capital Court  
Capital Interchange Way  
Brentford  
Middlesex  
TW8 0EX

**COMPANY NUMBER**

00610095

**AUDITORS**

Ernst & Young LLP  
1 Colmore Square  
Birmingham  
B4 6HQ

# **WATERSTONES BOOKSELLERS LIMITED**

# **REPORT AND ACCOUNTS 2012**

(formerly Waterstone's Booksellers Limited)

**Company Number: 00610095**

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## **DIRECTORS' REPORT**

The Directors submit their report and audited financial statements for the 52 weeks ended 28 April 2012, which were approved on behalf of the Board on 26 October 2012.

### **Business review**

The Company operates as a bookseller through a chain of general bookshops in the United Kingdom and through the Waterstones.com e-commerce website.

During the period, the entire issued share capital of the Company was sold by HMV Group plc for £53.5m on a debt and cash free basis to A&NN Capital Fund Management Limited. The transaction completed on 28 June 2011. As a consequence, the first two months of the financial year were impacted by funding constraints as HMV Group completed a financial restructuring, including the sale of Waterstones. This was followed by the disruption of a change of ownership, including significant management change. These factors impacted the financial performance of the business, with total sales in the 52 weeks ended 28 April 2012 decreasing by 14.0% from £477.4m to £410.4m, including a like for like sales decline of -11.1%. The sales performance also reflected a difficult high street book market, with strong competition from online retailers. Consequently, the continuing development of a range of complementary non-book merchandise is essential. These related products grew to 8.2% of sales in the period (2011: 6.5%).

Following the acquisition, the new management team has been led by James Daunt, the founder in 1990 of Daunt Books, a successful independent bookshop business based in London. The first year of independence from HMV Group plc has been transitional. A medium term strategic plan has been agreed, which includes substantial capital investment to reinvigorate the shops, such that they are places where people who are interested in books can go to browse, that encourage new readers to expand horizons and that are home to booksellers who are passionate about the books that they sell. This investment will be combined with active management of operating costs across the business. The plans for the business recognise the continuing digitisation of the market, which is rapidly evolving customers' ability to access all forms of entertainment and media, including books. As a consequence, on 21 May 2012, Waterstones announced an agreement with Amazon to launch, in autumn 2012, a new e-reading service and to offer Kindle digital devices in Waterstones' shops.

In the light of the disappointing sales performance, the operating loss before exceptional items was £25.4m, down from an operating profit of £10.4m in the prior period. Operating exceptional costs totalled £8.6m (2011: £28.0m), including £2.1m of store closure costs, £2.2m impairment of property, plant and equipment, £0.6m of head office restructuring costs and stock provisions £3.7m.

During the period under review, one new store was opened, and six stores were closed, resulting in a total estate of 286 stores at 28 April 2012.

The loss after taxation amounted to £42.9m (2011: £22.1m). No dividend was paid during the period (2011: £nil) and the Directors recommend that no final dividend be declared (2011: £nil) with the loss being transferred to reserves.

### **Principal risks and uncertainties**

The principal risks relevant to the Company are identified as: (i) the competitive nature of its markets; (ii) the growth of new methods of digital delivery; (iii) the general sensitivity to changes in economic conditions, (iv) the seasonality of the business; (v) agreements with key suppliers; (vi) damage to reputation or brands; (vii) the maintenance and development of information technology systems; and (viii) 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 and the changes of directorships since the year end date are shown on page 1.

(formerly Waterstone's Booksellers Limited)

**Company Number: 00610095**

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## **DIRECTORS' REPORT (CONTINUED)**

### **Employee policies**

During the period under review Waterstones successfully separated all employee processes from HMV Group and put in place a new decentralised HR function. This provides greater accountability to employees and aids the development of flexible and entrepreneurial book teams that can thrive under the difficult competitive market pressures that Waterstones trades in. Decentralised employee policies support a flexible local service, improving response times and maximising the use of available resources, whilst minimising costs.

Waterstones is committed to maintaining and improving an equal and diverse workplace, free from discrimination on the grounds of age, gender, nationality, non-job related disability, sexual orientation or marital status. It also aspires to be an employer of choice and aims to provide opportunities for individuals to develop and contribute through employee forums and focus groups.

### **Policy on payment of creditors**

During the period under review the Company did not impose standard payment terms on its suppliers but agreed specific terms with each and ensured that each supplier was made aware of such terms. It was the Company's policy to pay its suppliers in accordance with the terms that they had agreed. The number of days' purchases outstanding as payable at 28 April 2012 was calculated as 64 (2011: 45).

### **Charitable donations**

The Company made charitable donations of £10,000 in the period under review (2011: £11,000). During the period under review it was Company policy not to make donations to political parties and, therefore, no political donations were made.

### **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:

1. 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
2. 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 and the laying of accounts before the Company in general meeting are currently in force. Ernst & Young LLP are therefore deemed to continue as auditors of the Company.

### **Going concern**

The Directors report that, having reviewed current performance and forecasts, they have a reasonable expectation that the Group has adequate resources and access to funding, through the continuing support of the parent, to continue in operational existence for the foreseeable future. On this basis, they continue to adopt the going concern basis in preparing the financial statements.

By order of the Board



**M T Miles**

Secretary

26 October 2012

# **WATERSTONES BOOKSELLERS LIMITED**

# **REPORT AND ACCOUNTS 2012**

(formerly Waterstone's Booksellers Limited)

**Company Number: 00610095**

## **STATEMENT OF DIRECTORS' RESPONSIBILITY**

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 English law and those International Financial Reporting Standards as adopted by the European Union (IFRS).

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 in accordance with IAS 8: Accounting Policies, Changes in Estimates 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;
- (iv) state that the Company has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- (v) make judgements and estimates that are reasonable and prudent.

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 Act 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 IFRS, 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



**A J Daunt**  
Director  
26 October 2012



**M T Miles**  
Director  
26 October 2012

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WATERSTONES BOOKSELLERS LIMITED**

We have audited the financial statements of Waterstones Booksellers Limited for the 52 weeks ended 28 April 2012, which comprise the Income Statement, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and related notes 1 to 31. 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 Chapter 3 of Part 16 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. In addition, we read all the financial and non-financial information in the Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **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 28 April 2012 and of its loss 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.

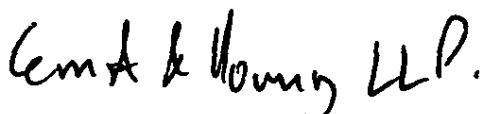
### **Opinion on other matter prescribed by the Companies Act 2006**

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.



John Flaherty (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
Birmingham.

30 OCTOBER 2012.

**WATERSTONES BOOKSELLERS LIMITED****REPORT AND ACCOUNTS 2012**

(formerly Waterstone's Booksellers Limited)

**Company Number: 00610095****INCOME STATEMENT****For the 52 weeks ended 28 April 2012 and 53 weeks ended 30 April 2011**

		Before exceptional items 2012	Exceptional items 2012	Total 2012
	Notes	£000	£000	£000
Revenue	3	410,354	-	410,354
Cost of sales		(404,175)	(8,009)	(412,184)
Gross profit (loss)		6,179	(8,009)	(1,830)
Administrative expenses		(31,581)	(637)	(32,218)
Operating loss	4	(25,402)	(8,646)	(34,048)
Finance income	9	95	-	95
Finance costs	10	(3,361)	-	(3,361)
Loss before taxation		(28,668)	(8,646)	(37,314)
Taxation	11	(7,141)	1,548	(5,593)
Loss for the period		(35,809)	(7,098)	(42,907)

		Before exceptional items 2011	Exceptional items 2011	Total 2011
	Notes	£000	£000	£000
Revenue	3	477,424	-	477,424
Cost of sales		(446,427)	(6,598)	(453,025)
Gross profit		30,997	(6,598)	24,399
Administrative expenses		(20,581)	(23,295)	(43,876)
Operating profit (loss)	4	10,416	(29,893)	(19,477)
Finance costs	10	(1,120)	-	(1,120)
Loss before taxation		9,296	(29,893)	(20,597)
Taxation	11	(3,413)	1,932	(1,481)
Loss for the period		5,883	(27,961)	(22,078)

See Accounting Policies on pages 11 to 15 for the description of the 2012 and 2011 reporting periods.

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

All results relate to continuing activities.

**WATERSTONES BOOKSELLERS LIMITED****REPORT AND ACCOUNTS 2012**

(formerly Waterstone's Booksellers Limited)

**Company Number: 00610095****STATEMENT OF COMPREHENSIVE INCOME****For the 52 weeks ended 28 April 2012 and 53 weeks ended 30 April 2011**

	2012	2011
	£000	£000
Loss for the period attributable to the shareholders of the Company	(42,907)	(22,078)
Gain (loss) on forward foreign exchange contracts	92	(92)
Other comprehensive loss for the period	92	(92)
Total comprehensive loss for the period attributable to the shareholders of the Company	(42,815)	(22,170)



**WATERSTONES BOOKSELLERS LIMITED****REPORT AND ACCOUNTS 2012**

(formerly Waterstone's Booksellers Limited)

**Company Number: 00610095****BALANCE SHEET**

		As at 28 April 2012 £000	As at 30 April 2011 £000
	Notes		
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	51,584	60,042
Intangible assets	13	-	-
Investments in subsidiaries	14	27,261	27,261
Deferred income tax asset	11	-	7,547
		<b>78,845</b>	<b>94,850</b>
<b>Current assets</b>			
Inventories	16	78,437	72,453
Trade and other receivables	15	46,392	50,487
Cash and short-term deposits	17	19,819	15,347
		<b>144,648</b>	<b>138,287</b>
<b>Total assets</b>		<b>223,493</b>	<b>233,137</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Deferred income tax liability	11	(324)	(351)
Interest bearing loans and borrowings	19	(2,720)	(3,389)
Provisions	20	(2,252)	(384)
		<b>(5,296)</b>	<b>(4,124)</b>
<b>Current liabilities</b>			
Trade and other payables	18	(206,402)	(171,118)
Current income tax payable		-	(1,039)
Interest bearing loans and borrowings	19	(702)	(734)
Derivative financial instruments	21	-	(92)
Provisions	20	(2,229)	(4,354)
		<b>(209,333)</b>	<b>(177,337)</b>
<b>Total liabilities</b>		<b>(214,629)</b>	<b>(181,461)</b>
<b>Net assets</b>		<b>8,864</b>	<b>51,676</b>
<b>Equity</b>			
Share capital	24	71,014	71,014
Hedging reserve		-	(92)
Retained earnings		(62,150)	(19,246)
<b>Total equity</b>		<b>8,864</b>	<b>51,676</b>

The financial statements were approved by the Board of Directors on 26 October 2012 and were signed on its behalf by:



**A J DAUNT**  
Director



**M T Miles**  
Director

**WATERSTONES BOOKSELLERS LIMITED****REPORT AND ACCOUNTS 2012**

(formerly Waterstone's Booksellers Limited)

**Company Number: 00610095****STATEMENT OF CHANGES IN EQUITY**

	Share capital	Hedging reserve	Retained earnings	Total
	£000	£000	£000	£000
At 24 April 2010	71,014	-	2,895	73,909
Loss for the period	-	(92)	(22,078)	(22,170)
Total comprehensive loss	-	(92)	(22,078)	(22,170)
Charge for share-based payments	-	-	45	45
Deferred tax on share-based payments	-	-	(108)	(108)
<b>At 30 April 2011</b>	<b>71,014</b>	<b>(92)</b>	<b>(19,246)</b>	<b>51,676</b>
Gain (loss) for the period	-	92	(42,907)	(42,815)
Total comprehensive gain (loss)	-	92	(42,907)	(42,815)
Charge for share-based payments	-	-	3	3
Deferred tax on share-based payments	-	-	-	-
<b>At 28 April 2012</b>	<b>71,014</b>	<b>-</b>	<b>(62,150)</b>	<b>8,864</b>

**WATERSTONES BOOKSELLERS LIMITED****REPORT AND ACCOUNTS 2012**

(formerly Waterstone's Booksellers Limited)

**Company Number: 00610095****CASH FLOW STATEMENT**

For the 52 weeks ended 28 April 2012 and 53 weeks ended 30 April 2011

	Notes	2012 £000	2011 £000
<b>Cash flows from operating activities</b>			
Loss before tax		(37,314)	(20,597)
Net finance costs		3,266	1,120
Depreciation	12	13,534	14,774
Impairment charges	4	2,191	70,234
Waiver of loan payable to fellow subsidiary undertaking	6	-	(46,593)
Loss on disposal of property, plant and equipment		527	27
Equity-settled share-based payment charge	8	3	45
		(17,793)	19,010
Movement in inventories		(5,984)	15,166
Movement in trade and other receivables		4,095	(2,427)
Movement in trade and other payables		33,208	(5,014)
Movement in provisions		(257)	3,241
Cash generated from operations		13,269	29,976
Income tax paid		-	(88)
<b>Net cash flows from operating activities</b>		<b>13,269</b>	<b>29,888</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(7,794)	(7,617)
<b>Net cash flows from investing activities</b>		<b>(7,794)</b>	<b>(7,617)</b>
<b>Cash flows from financing activities</b>			
Interest paid		(302)	(1,072)
Repayment of capital element of finance leases		(701)	(946)
<b>Net cash flows from financing activities</b>		<b>(1,003)</b>	<b>(2,018)</b>
<b>Net increase in cash and cash equivalents</b>		<b>4,472</b>	<b>20,253</b>
Opening cash and cash equivalents	17	15,347	(4,906)
<b>Closing cash and cash equivalents</b>	17	<b>19,819</b>	<b>15,347</b>

# **WATERSTONES BOOKSELLERS LIMITED**

# **REPORT AND ACCOUNTS 2012**

(formerly Waterstone's Booksellers Limited)

**Company Number: 00610095**

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## **NOTES TO THE FINANCIAL STATEMENTS**

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

The financial statements of Waterstones Booksellers Limited for the period ended 28 April 2012 were authorised for issue by the Board on 26 October 2012 and the Balance Sheet was signed on the Board's behalf by A J Daunt and M T Miles. Waterstones Booksellers Limited is incorporated and domiciled in England and Wales.

The financial statements have been prepared in accordance with IFRS 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 28 April 2012, whilst the comparative period covered the 53 weeks ended 30 April 2011. 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 400 of the Companies Act 2006. 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.

The Directors report that, having reviewed current performance and forecasts, they have a reasonable expectation that the Group has adequate resources and access to funding, through the continuing support of the parent, to continue in operational existence for the foreseeable future. On this basis, they continue to adopt the going concern basis in preparing the financial statements.

#### **Judgements and key sources of estimation uncertainty**

The judgements and 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 as follows.

**Impairment of goodwill and other assets** – Goodwill is tested for impairment on at least an annual basis. As part of this testing, the value in use of the cash-generating units to which the goodwill is allocated is assessed, which requires the estimation of future cash flows and choosing a suitable discount rate. Property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. When a review for impairment is conducted, the recoverable amount of an asset or a cash generating unit is determined based on value-in-use calculations prepared in the basis of management's assumptions and estimates.

**Inventory valuation** – inventories are valued at the lower of cost and net realisable value, which includes, where necessary, provisions for slow moving and obsolete inventory. Calculation of provisions requires judgements to be made regarding future customer demand, the competitive environment and inventory loss trends.

**Taxation** – calculation of the Company's total tax charge requires a degree of estimation and judgement in respect of certain transactions whose ultimate tax treatment is uncertain. Where the final outcome of these tax matters differs from the amounts that were initially recorded, the tax charge and deferred tax provisions will be impacted.

**Provisions** – Provisions for store closure, onerous leases and restructuring costs are estimates and the actual costs and timing of future cash flows are dependent on future events. Expectations are revised in each period, with any difference accounted in the period in which the revision is made.

#### **Investments in subsidiaries**

Investments in subsidiaries are recognised at cost less impairments booked. Income is recognised from these investments when the right to receive the distribution is established.

**NOTES TO THE FINANCIAL STATEMENTS****2. Accounting policies (continued)****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.

**Exceptional items**

The Company 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, reversal of impairments 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 $\frac{1}{3}$ %
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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 expensed 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.

**NOTES TO THE FINANCIAL STATEMENTS****2. Accounting policies (continued)****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.

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 to other comprehensive income if it relates to items that are themselves charged or credited to other comprehensive income, 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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****2. Accounting policies (continued)****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.

**Pension costs**

The Company's employees now participate in a new defined contribution Pension Saver scheme. This scheme was set up following the separation of Waterstones from the HMV Group on 28 June 2011. Prior to this date, the Company's employees participated in the HMV Group Pension Scheme (the "HMV Scheme"). The HMV Scheme had two sections – the Pension Benefit Section and the Pension Saver Section. As a condition of the sale of Waterstones by HMV Group plc, all liabilities of the Pension Benefit Section in respect of Waterstones current and past employees remained with HMV Group plc in accordance with a scheme apportionment arrangement entered into on 6 June 2011 (See Note 26).

The Pension Benefit Section of the HMV Scheme provided benefits to a number of Group companies. There was 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, recognised the net pension obligation for the Scheme as the sponsoring entity of the defined benefit scheme. The Company, as a participating member of the HMV Scheme, accounted for its relevant pension costs on a defined contribution basis. On 31 March 2011 the defined benefit scheme was closed to future accrual and members were instead offered membership of the defined contribution scheme. Further details are given in Note 26.

For the defined contribution schemes, 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 were operated by the former ultimate parent undertaking, HMV Group plc, in which the Company's employees participated. On 28 June 2011, when HMV Group plc sold its investment in the Company, employee participation in share schemes operated by HMV Group plc ended.

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.

In valuing equity settled transactions, no account is taken of any service and performance (vesting conditions), other than performance conditions linked to the price of the shares of the parent company (market conditions). Any other conditions which are required to be met in order for an employee to become fully entitled to an award are considered to be non-vesting conditions. Like market performance conditions, non-vesting conditions are taken into account in determining the grant fair value. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market vesting condition or a non-vesting condition, which are treated as vesting irrespective of whether or not the market vesting condition or non-vesting condition is satisfied, provided that all other non-market vesting conditions are satisfied.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****2. Accounting policies (continued)****Derivative financial instruments**

The Company may from time to time use derivative financial instruments for hedging purposes, including forward foreign exchange contracts. The Company does not enter into derivative financial instruments for speculative purposes. Derivative financial instruments are stated at their fair value. The fair value of forward foreign exchange contracts is their quoted market value at the balance sheet date, being the present value of the quoted forward price.

**Hedge accounting**

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised in other comprehensive income and any ineffective portion is recognised immediately in the income statement. Amounts taken to other comprehensive income are transferred to the income statement when hedged transactions affect profit or loss, such as when a forecast sale or purchase occurs.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time any cumulative gain or loss on the hedging instrument previously recognised in other comprehensive income is retained in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is then transferred to the income statement. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

**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 period ending 28 April 2012 or have been adopted early as appropriate. They have no material impact on the Company.

- IAS 24 Related Party Disclosures (Amendment) (1 January 2011)
- IFRIC 14 Prepayments of a minimum funding requirements (Amendment) (1 January 2011)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (1 July 2010)
- Annual improvements to IFRS (Issued in May 2010)

The Company has not adopted early the requirements of the following accounting standards and Interpretations, which have an effective date after the start date of these financial statements:

- IFRS 9 Financial Instruments: Classification and Measurement (1 January 2013)
- IFRS 10 Consolidated Financial Statements (1 January 2013)
- IFRS 11 Joint Arrangements (1 January 2013)
- IFRS 12 Disclosure of Interests in Other Entities (1 January 2013)

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.



**WATERSTONES BOOKSELLERS LIMITED****REPORT AND ACCOUNTS 2012**

(formerly Waterstone's Booksellers Limited)

**Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****3. Revenue**

Revenue disclosed in the income statement is analysed as follows:

	2012	2011
	£000	£000
Sale of goods	410,354	477,424

**4. Operating profit (loss)**

	2012	2011
	£000	£000
Operating profit (loss) is stated after charging (crediting):		
Depreciation of property, plant and equipment	13,534	14,774
Impairment charges	2,191	70,234
Loss on disposal of property, plant and equipment	527	27
Cost of inventories recognised as expense	224,032	262,242
Write down of inventories	5,320	905
Auditor remuneration	78	69
Operating lease rentals		
Minimum rentals	55,013	56,491
Percentage rentals	99	223
Sublease rentals	(965)	(971)
	54,147	55,743

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**

	2012	2011
	£000	£000
Audit of the financial statements	78	32

The audit fee disclosed above represents the statutory audit fee for the Company. In 2011 the higher amount disclosed as auditor remuneration in Note 4 reflected the impact of the allocation of audit fees by HMV group plc.

Fees to auditors for non-audit services in the financial year were £3,000. In 2011, 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 2011 consolidated accounts of the parent company, HMV Group plc.

**WATERSTONES BOOKSELLERS LIMITED****REPORT AND ACCOUNTS 2012**

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**Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****6. Exceptional items (before taxation)**

	2012	2011
	£000	£000
(Charged) credited in arriving at operating profit:		
Impairment of property, plant and equipment	(2,191)	(887)
Restructuring and redundancy costs	(637)	(541)
Store closure costs	(2,113)	(5,711)
Stock provisions	(3,705)	-
Waiver of loan payable to fellow subsidiary undertaking	-	46,593
Impairment of goodwill	-	(69,347)
	<b>(8,646)</b>	<b>(29,893)</b>

Included within cost of sales:-

Exceptional store closure costs of £2,113,000 (2011: £5,711,000) including fixed asset write-offs, redundancy costs incurred, strip-out costs, stock obsolescence and provisions for future property costs.

Impairment charges for property, plant and equipment of £2,191,000 (2011: £887,000) following a review of the carrying value based on prevailing market conditions.

Stock provisions of £3,705,000 (2011: £nil), arising from an assessment of valuation following the acquisition of the Company and reflecting underlying trading conditions.

Included within Administrative expenses:-

Exceptional costs of £637,000 (2011: £541,000) relating to restructuring and related redundancy costs. In 2011, administrative expenses also included an impairment charge of £69,347,000 following a review of the carrying value of goodwill (see note 13) and a credit of £46,593,000 for the waiver of a loan payable to a fellow subsidiary undertaking.

A tax credit of £1,548,000 (2011: £1,932,000) arose in respect of these costs.

**7. Directors' emoluments**

	2012	2011
	£000	£000
Emoluments	339	694
Pension contributions	16	25
Termination benefits	563	384
	<b>918</b>	<b>1,103</b>

Mr Fox and Mr West (2011- Mr Fox) were paid by another HMV Group company for services to the Group as a whole. In addition, two directors were paid termination benefits by HMV Group, which were not recharged to the Company. The amount concerned, £428,000, is included in the termination benefits shown above.

In 2011, retirement benefits accrued to four of the Directors under a defined benefit pension scheme, until the closure of the scheme to future service accrual with effect from 31 March 2011. None of the Directors exercised options over Ordinary Shares in the former parent company, HMV Group plc (2011: none). Four of the Directors were entitled to receive shares in HMV Group plc under a long-term incentive scheme (2011: four), until employees were no longer able to participate in these schemes following HMV Group's disposal of Waterstones Booksellers Limited on 28 June 2011.

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**Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****7. Directors' Emoluments (continued)**

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

	2012	2011
	£000	£000
Aggregate emoluments	120	297
Pension contributions	-	25
	120	322

**8. Employee costs**

	2012	2011
	£000	£000
Employee costs, including Directors' emoluments:		
Wages and salaries	58,920	63,212
Social security costs	4,882	5,662
Other pension costs (see Note 27)	1,010	902
	64,812	69,776

Included in wages and salaries is a total charge for equity-settled share-based payments of £3,000 (2011: £45,000).

The average number of people employed by the Company in retailing during the period was 4,443 (2011: 4,719).

**9. Finance Income**

	2012	2011
	£000	£000
Bank interest receivable	83	-
Other interest receivable	12	-
Total finance income	95	-

**10. Finance costs**

	2012	2011
	£000	£000
External loans and overdrafts	50	69
To parent and fellow subsidiary undertakings	3,311	1,051
Total finance costs	3,361	1,120

**WATERSTONES BOOKSELLERS LIMITED****REPORT AND ACCOUNTS 2012**

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**Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****11. Taxation**

	2012	2011
	£000	£000
Taxation recognised in the income statement:		
United Kingdom, current year:		
Corporation tax	-	1,921
Over provision in prior periods	(1,927)	(799)
	(1,927)	1,122
Overseas tax, current year	-	6
Total current tax	(1,927)	1,128
Deferred tax:		
United Kingdom	7,520	353
Total deferred tax	7,520	353
Total taxation charge in the income statement	5,593	1,481

The tax charge in the current year includes a credit of £1,548,000 (2011: £1,932,000) in relation to the exceptional operating costs of £8,646,000 (2011: £7,139,000), details of which can be found in Note 6.

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

	2012	2011
	£000	£000
Loss before taxation	(37,314)	(20,597)
Corporation tax at UK average statutory rate of 25.9% (2011: 27.84%)	(9,664)	(5,734)
Effects of:		
Permanent disallowables	859	488
Permanent disallowables on exceptional items	692	6,391
Current tax prior period over provision	(1,927)	(799)
Derecognition of deferred tax asset	7,547	-
Unrecognised temporary differences in current period	3,549	584
Unrecognised unutilised tax losses	4,564	-
Deferred tax rate change	(27)	551
Total tax charge	5,593	1,481

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

	2012	2011
	£000	£000
Deferred taxation relating to share-based payments	-	108

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**Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****11. Taxation (continued)****Deferred Tax**

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

	2012 £000	2011 £000
<b>Deferred tax liability</b>		
Holdover of capital gains	(324)	(351)
	(324)	(351)
<b>Deferred tax asset</b>		
Accelerated depreciation for tax purposes	-	7,531
Other temporary differences	-	16
	-	7,547

The standard rate of UK corporation tax reduced to 24% from 1 April 2012. Deferred tax recognised has therefore been calculated using the standard rate of UK corporation tax of 24% (2011: 26%). The restatement of the deferred tax balances at 24% has resulted in a £27,000 credit (2011: £551,000 charge) to profit and loss account.

Further reductions to the standard rate are proposed to reduce the rate by a further 1% annually until it reaches 22% with effect from 1 April 2014. As this legislation was not substantively enacted by the balance sheet date it has not been reflected in these financial statements

The deferred income tax not recognised in the balance sheet is as follows:

	2012 £000	2011 £000
Accelerated capital allowances	10,193	-
Other temporary differences	15	-
Tax losses	4,229	-
	14,437	-

The deferred tax assets have not been recognised since there is no persuasive evidence that there will be suitable taxable profits against which the timing differences will reverse. It is likely that the assets will be recoverable once suitable taxable profits are generated. Of the total unrecognised deferred tax assets of £14,437,000 at 28 April 2012, £7,547,000 relates to the prior year.

The derecognition of the deferred tax asset in relation to accelerated capital allowances and other temporary differences has been taken to the income statement (£7,547,000).

The standard rate of UK corporation tax reduced to 24% from 1 April 2012. Deferred tax not recognised has therefore been calculated using the standard rate of UK corporation tax of 24% (2011: 26%).

Further reductions to the standard rate are proposed to reduce the rate by a further 1% annually until it reaches 22% with effect from 1 April 2014. As this legislation was not substantively enacted by the balance sheet date it has not been reflected in these financial statements

A reduction to the standard rate of UK corporation tax from 24% to 22% would reduce the deferred tax asset not recognised by £1,203,000.

There are no unprovided deferred tax liabilities.

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**Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****11. Taxation (continued)****Deferred Tax (continued)**

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

	2012	2011
	£000	£000
Accelerated depreciation for tax purposes	7,531	349
Deferred tax rate change	(27)	-
Holdover of capital gains	-	(165)
Other temporary differences	16	-
Share-based payments	-	169
	<b>7,520</b>	<b>353</b>

**12. Property, plant and equipment**

	Plant, equipment and vehicles
	£000
Cost at 24 April 2010	191,984
Disposals	(7,319)
Additions	7,617
Cost at 30 April 2011	192,282
Disposals	(2,828)
Additions	7,794
<b>Cost at 28 April 2012</b>	<b>197,248</b>
Depreciation at 24 April 2010	123,151
Charge for period	14,774
Impairment loss	887
Disposals	(6,572)
Depreciation at 30 April 2011	132,240
Charge for period	13,534
Impairment loss	2,191
Disposals	(2,301)
<b>Depreciation at 28 April 2012</b>	<b>145,664</b>
<b>Net book value at 28 April 2012</b>	<b>51,584</b>
Net book value at 30 April 2011	60,042
Net book value at 24 April 2010	68,833

Property, plant and equipment has been written down by £2,191,000 (2011: £887,000), following an impairment review of the carrying value of certain retail assets based on prevailing market trading conditions. The recoverable amounts of assets were determined from value in use calculations that incorporated three-year cash flow estimates discounted at an appropriate pre-tax discount rate of 10% (2011-11.8%). The cash flows reflected management's best estimates of revenue, margin and operating costs over the forecast period and no reasonably possible change in assumptions would result in further impairment.

The carrying value of plant and equipment held under finance leases at 28 April 2012 was £5,150,000 (2011: £5,943,000), of which £nil (2011: £nil) is included within additions during the year. Leased assets are pledged as security for the related finance leases.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****13. Intangible assets**

	Goodwill £000
Cost at 24 April 2010	69,347
Cost at 30 April 2011	69,347
Cost at 28 April 2012	69,347
Provision at 24 April 2010	-
Impairment charge at April 2011	(69,347)
Provision at 30 April 2011 and 28 April 2012	(69,347)
<b>Net book value at 30 April 2011 and 28 April 2012</b>	<b>-</b>

Goodwill of £69,347,000 which arose on the acquisition of the trade and assets of the subsidiary undertaking Waterstones Overseas Limited on 26 April 2008 was capitalised. This goodwill was subject to an annual impairment review so as to ensure that the carrying amount was not greater than the recoverable amount. On the basis of such a review, provision was made at 30 April 2011 against the full value of the goodwill. This reflected the valuation of the Company inherent in the sale of the business by HMV Group plc on 28 June 2011 for £53.5m on a cash-free, debt-free basis.

**14. Investments: subsidiaries**

	Cost £000	Provision £000	Net book value £000
At 24 April 2010	27,261	-	27,261
At 30 April 2011	27,261	-	27,261
At 28 April 2012	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
Waterstones Overseas Limited	England & Wales	Non-trading
Hatchards UK Limited	England & Wales	Non-trading

Waterstones Overseas Limited was formerly Waterstone's Overseas Limited and prior to that, HMV Overseas Limited

Hatchards UK Limited was formerly Fine Recordings Club Limited.

**15. Trade and other receivables**

	2012 £000	2011 £000
Current:		
Trade receivables	4,432	3,324
Amounts owed by parent and fellow subsidiary undertakings	817	204
Other receivables	10,192	13,480
Prepayments and accrued income	30,951	33,479
	<b>46,392</b>	<b>50,487</b>

The carrying value of trade and other receivables approximates to fair value. Trade receivables are stated net of a provision for impairment of £47,000 (2011: £100,000). Credit risk is limited as the Company has minimal levels of trade receivables due to the nature of its retailing business. See Note 22 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.

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**Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****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**

	2012	2011
	£000	£000
Cash at bank and in hand	19,819	15,347

Cash at bank earns interest at floating rates based on daily bank deposit rates.

**18. Trade and other payables**

	2012	2011
	£000	£000
Current:		
Trade payables	40,400	29,781
Amounts owed to UK parent, ultimate European parent and fellow subsidiary undertakings	100,418	82,597
Other payables	39,272	34,719
Accruals and deferred income	26,312	24,021
	206,402	171,118

The carrying value of trade and other payables approximates to fair value. Trade payables are not interest-bearing and are generally settled on 30-60 day terms. Other payables and accruals are not interest-bearing. Of the amounts owed to UK parent, ultimate European parent and fellow subsidiary undertakings, £69,109,000 (2011: £49,407,000) is repayable on demand, (£63,674,000 of which is repayable within 30 days of demand and £5,435,000 immediately) and on which interest is charged at 7% per annum or the base rate of Barclays Bank plc at date of advance plus 4%, whichever is higher. (2011: interest charged at the Bank of England base rate prevailing at the date of inception).

During the period ending 30 April 2011, a loan payable to a fellow subsidiary undertaking of £46,593,000 was waived, resulting in an exceptional credit (see Note 6).

The remaining amounts owed to parent and fellow subsidiary undertakings relate to intercompany trading and are settled monthly with no interest charged. See Note 30 for the terms and conditions relating to related party payables.

**19. Interest bearing loans and borrowings**

	2012	2011
	£000	£000
Non-current:		
Obligations under finance leases (see Note 28)	2,720	3,389
	2,720	3,389
Current:		
Obligations under finance leases (see Note 28)	702	734
	702	734

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



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**Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****20. Provisions**

	<b>Total</b>
	<b>£000</b>
At 30 April 2011	4,738
Charged during the year	514
Provisions utilised	(771)
<b>At 28 April 2012</b>	<b>4,481</b>
Analysed as:	
Current	2,229
Non-current	2,252
	<b>4,481</b>

Provisions almost entirely consist of amounts in respect of store closures and restructuring. The utilisation of provisions in the year largely reflects store closures. The £514,000 provision created in the year related to further store closures and head office restructuring costs. All provisions are expected to be utilised in the next five years.

**21. Derivative financial instruments***Currency derivatives*

The Company can use derivative instruments as part of a policy of managing foreign currency exchange risk arising on expected future purchases of internationally sourced products. The implementation of these derivative instruments is negotiated to match expected purchases and they therefore qualify for hedge accounting. The fair value of cash flow hedges in place at 28 April 2012 is £nil (2011: £92,000). The £92,000 recognised in the hedging reserve in 2011 has been derecognised in the current year.

The total notional amount of outstanding foreign currency contracts to which the Company was committed at 28 April 2012 was £nil (2011: £2.0m), all of which related to US dollar commercial activities.

*Fair values*

The fair values of the Company's financial instruments, trade receivables, other receivables, trade payables and other payables equates to their carrying values in the Company's balance sheet.

**22. 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.

*Liquidity risk*

During the year under review the Group had sufficient funds and facilities available to satisfy its current requirements.

The Company has access to UK parent and European parent funding facilities under loan agreements that were put in place on and since acquisition by Waterstones Holdings Limited. These funding facilities consist of a revolving credit facility of £65m and a term loan of £33m. Since the year end, the UK Parent company agreed a US\$57m bank loan facility, to which the Company is a guarantor (see Note 31 Post Balance Sheet events)

At 30 April 2011 the Company was a guarantor to the HMV Group's £240m revolving credit facility (see Note 26). Under the HMV Group's banking arrangements, overdraft and cash balances of the Company and certain other Group companies were pooled or offset and cross-guaranteed. The Company ceased to participate in and be a guarantor to HMV Group's banking facility on 28 June 2011.

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**Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****22. Financial risk factors (continued)**

Analysis of the maturity profile of the Company's financial liabilities at 28 April 2012 is shown below:

	On demand £000	Less than 3 months £000	3 to 12 months £000	1 to 5 years £000	More than 5 years £000	Total £000
Finance lease	-	185	569	2,360	562	3,676
Trade and other payables	69,109	137,201	-	-	-	206,310
<b>At 28 April 2012</b>	<b>69,109</b>	<b>137,386</b>	<b>569</b>	<b>2,360</b>	<b>562</b>	<b>209,986</b>

Finance lease	-	172	582	2,549	1,127	4,430
Trade and other payables	49,407	121,803	-	-	-	171,210
<b>At 30 April 2011</b>	<b>49,407</b>	<b>121,975</b>	<b>582</b>	<b>2,549</b>	<b>1,127</b>	<b>175,640</b>

*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 manages cash balances by repaying drawings under the revolving credit facility.

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. Details of foreign currency contracts outstanding at the balance sheet date are given in Note 21.

*Sensitivity analysis*

The following sensitivity analysis illustrates the sensitivity to changes in market variable of the Company's financial instruments and show the impact on profit and shareholders' funds.

*Interest rate sensitivity*

Based on the Company's net debt position at the year end, a 100 basis points movement in interest rates would affect the Company's profit before tax and shareholders' equity by approximately £0.5m (2011: £0.4m).

*Foreign exchange rate sensitivity*

The Company imports products from overseas. A 10% change in the value of Euro and US Dollar against Sterling would affect the Company's profit before tax and the shareholders' equity by approximately £0.2m (2011: £0.4m).

*Capital management*

During the year under review, the core objective of the Company was to ensure that it would be able to continue to operate as a going concern, as well as having sufficient funds available to grow the business for the benefit of its parent company and other stakeholders. The capital structure of the Company comprises loans and borrowings through its intra-group facilities (see Note 22), cash and cash equivalents (see Note 17) and equity attributable to the parent company (see Note 24). During the year under review the Company was a guarantor to the former parent company banking facility (see Note 22). After the year end, the Company became guarantor to a parent company loan facility (see Note 31)

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**Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****23. Additional cash flow information**

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

	At 30 April 2011 £000	Cash flow £000	Other non-cash changes £000	At 28 April 2012 £000
Cash at bank and in hand	15,347	4,472	-	19,819
Cash and cash equivalents	15,347	4,472	-	19,819
Loans and borrowings – non-current	(3,389)	-	669	(2,720)
Loans and borrowings – current	(734)	701	(669)	(702)
Total loans and borrowings	(4,123)	701	-	(3,422)
Net debt	11,224	5,173	-	16,397

	At 24 April 2010 £000	Cash flow £000	Other non-cash changes £000	At 30 April 2011 £000
Cash at bank and in hand	5,517	9,830	-	15,347
Bank overdrafts	(10,423)	10,423	-	-
Cash and cash equivalents	(4,906)	20,253	-	15,347
Loans and borrowings – non-current	(4,091)	-	702	(3,389)
Loans and borrowings – current	(978)	946	(702)	(734)
Total loans and borrowings	(5,069)	946	-	(4,123)
Net debt	(9,975)	21,199	-	11,224

Other non-cash changes represent movements in finance lease funding.

**24. Share capital**

	2012 Number '000	2011 Number '000	2012 £000	2011 £000
<b>Authorised</b>				
Ordinary Shares of £1 each	121,014	121,014	121,014	121,014
<b>Allotted, called up and fully paid</b>				
Ordinary Shares of £1 each	71,014	71,014	71,014	71,014

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
**25. Share-based payments**

Prior to the separation of Waterstones from the HMV Group on 28 June 2011, certain of the Company's employees participated in share-based payment schemes of the HMV Group plc. All such participation ended on this date.

**Equity-settled share option plan**

During the period under review certain of the Company's employees participated in an equity-settled share option plan of the (former) ultimate parent undertaking, HMV Group plc, known as 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)

Pursuant to the rules of the 2002 Scheme, 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 options remain unexercised after a period of 10 years from the date of grant, the options expire and options are forfeited if the employee leaves the Group before the option vests or before vested options are exercised. However, the employee's rights to exercise the outstanding options are unchanged by the change of ownership of the Company.

There was no charge for share options in respect of employee services during the period ended 30 April 2012 (2011: £nil). There were no grants of share options during the period under review or the prior period.

The movements in the number of share options during the year are detailed in the table below. The options outstanding at 30 April 2011 had a weighted average exercise price of 167p and a weighted average remaining contractual life of 1.1 years

	2012	2012	2011	2011
	Options	Weighted	Options	Weighted
	Number	average	Number	average
		exercise price		exercise price
		Pence		Pence
Outstanding at beginning of period	156,142	167	160,849	167
Lapsed during the period	(156,142)	167	(4,707)	167
Outstanding at end of the period <sup>1</sup>	-	-	156,142	167
Exercisable at end of the period	-	-	156,142	167

The outstanding balance of nil share options (2011: 156,142) 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.

	2012	2012	2011	2011
	Options	Weighted	Options	Weighted
	outstanding	average	outstanding	average
	Number	remaining	Number	remaining
		contractual life		contractual life
		Years		Years
2002 Executive Share Option Scheme				
Exercise price 167p	-	-	156,142	1.1
	-	-	156,142	1.1

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**NOTES TO THE FINANCIAL STATEMENTS (continued)****25. Share-based payments (continued)***Equity-settled deferred annual bonus*

During the period under review certain of the Company's senior management were 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, these awards are made in shares and the number of shares awarded, together with the fair value of the award, is determined by reference to the market value of shares at the time the award is made, not when it is paid. No adjustment to value is made for expected dividend income during the vesting period. 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 28 April 2012 was £3,000 (2011: £30,000).

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

	2012	2012	2011	2011
	Share awards	Weighted	Share awards	Weighted
	Number	average	Number	average
		fair value		fair value
		Pence		Pence
Outstanding at beginning of period	120,160	76	42,797	108
Granted during the period	-	-	77,363	58
Vested during the period	(120,160)	76	-	-
Outstanding at end of the period	-	-	120,160	76

Of the outstanding balance at 2011, the assessment of performance conditions at 30 April 2011 and the change in Company ownership resulted in 120,160 share awards vesting.

*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, set by the Remuneration Committee of HMV Group plc, are met. For awards up to and including grants made during the year ended 25 April 2009, vesting conditions were non-market related, primarily being Group earnings per share targets. For the award granted during the year ended 30 April 2011, the vesting conditions also include a market related element, being relative total shareholder return. The charge in respect of the PSP during the year ended 28 April 2012 was £nil (2011: £15,000).

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

	2012	2012	2011	2011
	Share awards	Weighted	Share awards	Weighted
	Number	average	Number	average
		fair value		fair value
		Pence		Pence
Outstanding at beginning of period	796,809	89	1,443,561	113
Granted during the period	-	-	303,555	58
Lapsed during the period	(796,809)	89	(950,307)	119
Outstanding at end of the period	-	-	796,809	89

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The fair value of the PSP grant during the 2011 financial year was based on the following assumptions:

Award date	Number of shares granted	Fair value Pence	Price at grant date Pence	Expected term Years	Expected dividend yield %	Expected volatility %	Risk free rate %	Vesting condition
7 July 2010	151,778	44	58	3	n/a	n/a	n/a	Non-market <sup>1</sup>
7 July 2010	151,777	30	58	3	6.1	42.2	1.55	Market <sup>2</sup>

<sup>1</sup> Earnings per share.

<sup>2</sup> Total shareholder return

All awards outstanding under the PSP lapsed on 28 June 2011 on the change of ownership of the Company.

**26. Contingent liabilities**

The management of Waterstones 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.

Since the year end Company has become guarantor to the UK Parent company US\$57m bank loan facility. Part of the security for this loan facility is a debenture on the assets of the Company, including the Waterstones brand.

At 30 April 2011 Waterstones Booksellers Limited was a guarantor to HMV Group's £240m syndicated bank facility. The borrowings under the facility were secured, with security comprising first ranking fixed and floating charges in favour of the lenders under the Facility Agreement over all assets and undertakings of the guarantors. On 28 June 2011, HMV Group plc sold its investment in the Company and the Company ceased to be a guarantor of the facility.

**27. Pension arrangements**

Following the separation of Waterstones from the HMV Group on 28 June 2011, the Waterstones Group Personal Pension Plan (WGPPP) was introduced to mirror the arrangements that were in place for eligible staff under HMV. The WGPPP is established under a Trust administered by Company Trustees. The scheme provides members with individual pension saving accounts in their own name, with a range of investment options available. Members can choose to pay from 2% to 6.5% of pensionable salary, with the members' contributions matched by Waterstones to a maximum of 6.5%.

Prior to 28 June 2011, the Company's employees participated in the HMV Group Pension Scheme (the "HMV Scheme"). The Scheme had two sections – the Pension Saver Section and the Pension Benefit Section. In respect of the Pension Benefit Section, the scheme closed to future benefit accrual with effect from 31 March 2011. Prior to this, there was 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 recognised 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.

As a condition of the sale of Waterstones by HMV Group plc, all liabilities of the Pension Benefit Section in respect of Waterstones current and past employees remained with HMV Group plc in accordance with a scheme apportionment arrangement entered into on 6 June 2011. This provided that on Waterstones ceasing to participate in the Scheme, their share of the Scheme's deficit (instead of becoming immediately payable) was transferred to HMV Group plc. In return for so agreeing, the Trustees and HMV Group plc agreed certain payments to, and additional protection for, the Scheme.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****27. Pension arrangements (continued)***Pension Saver Section (HMV)*

The Pension Saver Section was of the defined contribution type and was open to all permanent and temporary staff of the Group aged between 18 and 64 years. Members could choose to pay from 2% to 5% of pensionable pay increasing to a maximum of 6.5% from 1 April 2011. The Group matched the amount paid by the member up to a maximum of 5% of pensionable pay, which increased to a maximum of 6.5% from 1 April 2011. Members had 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 28 April 2012 were £0.2m (2011: £0.4m).

*Pension Benefit Section (HMV)*

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

A qualified actuary undertakes a valuation on at least a triennial basis. 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 has been funded by three special contributions of £2.17m, the last of which was paid on 1 May 2010. Discussions in respect of the actuarial review as at 30 June 2010 were incorporated into the agreement of a scheme apportionment arrangement, as discussed above, following which Waterstones ceased to be a participating employer in the Scheme.

During the 2011 financial year a consultation process with employees and the Trustees took place, following which the UK Scheme closed to future benefit accrual with effect from 31 March 2011. As a result, the 399 active members of the Scheme stopped building up a final salary pension and of these, 308 transferred to the Pension Saver Section of the Scheme, details of which are given below. The curtailment of the Scheme due to the closure to future accrual and changes to linked benefits such as rights on early retirement resulted in a £2.8m credit which was recognised as an exceptional item in the income statement of HMV Group plc for the year ended 30 April 2011.

Total Group employer contributions to the Pension Benefit Section for the year ended 30 April 2011 were £1.7m excluding the special contribution noted above of £2.17m. Of this, the Company contributed £0.5m.

Amounts reflected in the financial statements in respect of the defined benefit pension scheme were determined with the advice of independent qualified actuaries, Towers Watson, on the basis of annual valuations using the projected unit funding method. Scheme assets were stated at their market value at the respective balance sheet dates.

The major assumptions used in the calculations are as follows:

	As at 30 April 2011 % per annum
Rate of price inflation	3.6
Rate of salary increase	n/a
Rate of increase for pensions in payment	3.5
Rate used to discount scheme liabilities	5.3
Expected rate of return on equities & growth funds	7.7
Expected rate of return on bonds	n/a
Expected rate of return on index-linked bonds	4.2

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

The post-retirement mortality assumptions used at 30 April 2011 were in line with the actuarial funding valuation as at 30 June 2010. They reflected the SAPS S1 pensioner mortality series table with a long term trend of improvement of 1.5% per annum from 2002, based on members' year of birth. These bases imply the following life expectancies:

	2011 At age 65 for someone currently age 65	2011 At age 65 for someone currently age 50
Male	22.5	24.2
Female	24.6	26.4

Other non-financial assumptions were 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:

	2011 £m
Equities	44.6
Diversified growth & absolute return funds	33.5
Bonds	-
Index-linked bonds	34.4
Other	0.4
Total market value of assets	112.9
Actuarial value of scheme liabilities	(145.1)
Deficit in the Scheme	(32.2)
Deferred tax	5.5
Net pension liability	(26.7)

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

	2011 £m
Total market value of assets at the beginning of the period	100.6
Employer contributions	3.9
Employee contributions	0.8
Benefits paid	(2.2)
Expected return of plan assets	6.6
Actuarial gain	3.2
Total market value of assets at the end of the period	112.9



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

	2011 £m
Defined benefit pension obligations at the beginning of the period	(139.6)
Current service cost	(2.8)
Curtailment credit	2.8
Interest on pension scheme liabilities	(7.6)
Employee contributions	(0.8)
Benefits paid	2.2
Actuarial gain	0.7
Defined benefit pension obligations at the end of the period	(145.1)

The sensitivities regarding the principal assumptions used to measure the Scheme liabilities are set out below:

Assumption	Change in assumption	Impact on defined benefit obligation
Discount rate	Increase by 0.25%	Decrease by 7%
Price inflation	Increase by 0.25%	Increase by 7%
Post-retirement mortality	Life expectancy increase by one year	Increase by 3%

**28. 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 five years. At the end of the period, future minimum rentals payable under non-cancellable operating leases were as follows:

	Land and buildings		Other	
	2012	2011	2012	2011
	£000	£000	£000	£000
Not later than one year	49,505	56,184	175	294
Between two and five years inclusive	156,324	178,815	138	675
After five years	110,315	143,244	-	-
	316,144	378,243	313	969

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 28 April 2012 is £3,975,000 (2011: £6,408,000).

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**Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****28. Obligations under leases (continued)*****Obligations under finance leases***

The Company has acquired certain plant and equipment using 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:

	2012	2011
	£000	£000
Not later than one year	754	754
Between two and five years inclusive	2,360	2,549
After five years	562	1,127
	3,676	4,430
Less: finance charges allocated to future periods	(254)	(307)
Present value of minimum lease payments	3,422	4,123

The present value of minimum lease payments is analysed as follows:

	2012	2011
	£000	£000
Not later than one year	702	734
Between two and five years inclusive	2,192	2,492
After five years	528	897
	3,422	4,123

**29. Ultimate parent undertaking**

The immediate parent undertaking and ultimate UK parent undertaking of the Company for which Group financial statements are drawn up and of which the Company was a member during the financial year and at 28 April 2012 is Waterstones Holdings Limited, a subsidiary of A&NN Capital Fund Management Limited. Copies of these financial statements can be obtained from the Company Secretary, Capital Court, Capital Interchange Way, Brentford, Middlesex, TW8 0EX.

In the previous financial period, the immediate and ultimate parent undertaking of the Company for which Group financial statements are drawn up and of which the Company was a member during the financial year and at 30 April 2011 was HMV Group plc. Copies of these financial statements can be obtained from the Company Secretary, HMV Group plc, Windsor House, Spital Street, Marlow, Buckinghamshire, SL7 3HJ.

On 28 June 2011, HMV Group plc sold its investment in the Company to Waterstones Holdings Limited, a subsidiary of A&NN Capital Fund Management Limited.

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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 European parent company				
2012				5,434
2011	-	-	-	-
With ultimate UK parent company				
2012	-	-	-	63,675
2011	574	-	-	50,822
With fellow subsidiaries				
2012	-	283	817	31,309
2011	-	579	204	31,867

Included within amounts owed to related parties is £69.1m (2011: £49.4m) of intercompany loans, repayable on demand, on which interest is charged at the higher of 7% per annum or the base rate of Barclays plc at date of advance plus 4%. (2011: interest charged at the Bank of England base rate prevailing at the date of inception.) The remaining amounts owed by and to related parties referred to intercompany trading balances that are settled regularly with no interest charge.

The Company's employees, until 28 June 2011, participated in the HMV Group Pension Scheme, which had two sections – the Pension Saver Section and the Pension Benefit Section. In respect of the Pension Benefit Section, there was 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 recognised 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 were operated during the prior year by the ultimate parent undertaking, HMV Group plc, in which the Company's employees participated. The Company recognised 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 25.

**Remuneration of key management personnel**

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

**31. Post balance sheet event**

On 30 April 2012, the Company became guarantor to a US\$57m loan facility granted to the UK Parent Company, Waterstones Holdings Limited.