

Waterstones Booksellers Limited

Annual Report and Financial Statements

52 weeks ended 25 April 2020



WATERSTONES BOOKSELLERS LIMITED

REPORT AND ACCOUNTS 2020

Company Number: 00610095

COMPANY INFORMATION

DIRECTORS

A J Daunt

J Molloy

P Best (resigned 11 February 2020)

K Skipper (appointed 11 February 2020)

SECRETARY

L Aslam

REGISTERED OFFICE

203-206 Piccadilly

London

W1J 9HD

COMPANY NUMBER

00610095

AUDITORS

Ernst & Young LLP

1 Colmore Square

Birmingham

B4 6HQ

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2020****Company Number: 00610095****STRATEGIC REPORT****Principal activities**

The Company is part of the Waterstones group of companies ("Waterstones"). Waterstones is a leading retailer of books, stationery and other related products through a chain of bookshops in the United Kingdom, the Republic of Ireland, Isle of Man, Jersey, Holland and Belgium, and online through the Waterstones.com e-commerce website. Waterstones also sells coffee and food from cafés and restaurants within some of its shops, hosts public and private events and supports a large number of literary festivals.

Review of the business

Waterstones continues to seek to improve the standards of bookselling within its shops by the training and enhanced career development of its booksellers, and to support this with investment in the shops themselves and in the operational infrastructure.

The outbreak of Covid-19 during the financial year has had, and continues to have, a significant adverse impact on Waterstones. Under Government direction, the entire estate of shops was closed in mid-March 2020. The shops in Belgium and Holland re-opened in April 2020, followed by the majority of the remaining shops in mid-June 2020. Footfall and sales continue to recover but remain depressed, notably in London and other metropolitan city centres. Subsequent mandated closures have also been implemented across the estate throughout the following financial year.

Demand for books was strong immediately prior to the enforced closure of the shops. After the closures, the online business performed strongly. The Company successfully repurposed the distribution centre as an online fulfilment operation. Margins were lower due to shipping costs and the additional costs associated with social distancing measures within the distribution centre.

In consequence of these various impacts, sales at Waterstones declined relative to last year. The period of enforced closure of all shops adversely impacted profitability, as did the incremental costs associated with the implementation of safe working and trading environments. The business responded to these pressures with discipline and the overall impact on the Company's profitability has been substantially mitigated by early action to curtail costs. The support and hard work of employees in this challenging environment has been highly professional.

The Company has benefited from the following forms of UK Government financial support:

- (i) Coronavirus Job Retention Scheme
- (ii) Coronavirus business rates relief for the 2020-2021 tax year
- (iii) the Company has applied for and, in some cases, received government grants in accordance with EU State Aid rules (applicable up and until December 31st 2020) and, in accordance with the Trade and Cooperation Agreement Subsidy Control rules and applicable limits following the UK's departure from the EU on January 1st. These limits include:
 - a. A de minimis threshold of approximately £335,000 over any period of 3 years;
 - b. A maximum of £1,600,000 to replace the EU's COVID framework; if a company reaches the limits under (1) and (2) they may claim under
 - c. COVID-19 Business Grant Special Allowance up to a maximum of £9,000,000, provided certain conditions are met.

Against this back drop, sales for the 52 week period ended 25 April 2020 were £376.0m (2019: £392.8m) resulting in an operating profit before exceptional items of £32.6m (2019: £29.7m). Exceptional operating charges totalled £1.2m (2019: £1.2m) comprising impairment of right-of-use assets and tangible fixed assets. In the prior period exceptional charges included additional directors' remuneration arising from the sale of the Company.

The profit after taxation amounted to £20.8m (2019: £22.7m). No dividend was paid or declared during the period (2019: £nil) with the profit being transferred to reserves.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2020****Company Number: 00610095****STRATEGIC REPORT (CONTINUED)****Section 172(1) Statement**

In accordance with the Companies (Miscellaneous Reporting) Regulations 2018 amendments to the Companies Act 2006, the Directors are required to set out how they have had regard to the matters in section 172 (1):

- a) the likely consequences of any decision in the long term;
- b) the interests of the Company's employees;
- c) the need to foster the Company's business relationships with suppliers, customers and others;
- d) the impact of the Company's operations on the community and the environment;
- e) the desirability of the Company maintaining a reputation for high standards of business conduct; and
- f) the need to act fairly between members of the Company.

We have adopted the Wates Corporate Governance Principles for Large Private Companies which provides a framework for the Company to demonstrate how the Company satisfies the requirements of s172(1) duty to promote the success of the Company as well as setting out how the Company engages with key stakeholders and employees. This is set out below.

Wates corporate governance statement*Purpose and leadership*

In a year of unprecedented challenge, the Board remains committed to improving corporate governance. Our vision is to continue to champion good books through our interesting bookshops and good bookselling through the excellence of our booksellers.

We continue also to build our online presence so that the very essence of Waterstones is available online and through our app.

We have implemented policies and tools to support the execution of our vision. Bookselling proficiency and career progression is a central focus, supported by such initiatives as our Bookseller Development Programme. We work to improve employee engagement including support for mental well-being and refinement of our Code of Conduct.

Board composition

As a subsidiary of Book Retail Bidco Limited ("Bidco") our long-term strategy and objectives are determined at Bidco board level.

The size and composition of our board is appropriate for the scale of the business. We are committed to being an inclusive business and recognise this is an area of continual improvement. Diversity of thought is encouraged through open debate and challenge.

The Board is supported by senior management who govern the day-to-day aspects of the business and ensure information is accurate and is conveyed in a timely manner to the board.

The Directors undertake training, as required, to ensure they are kept abreast of legal and regulatory changes.

Director responsibilities

The Directors are appointed for having the appropriate skill set and relevant experience to discharge their responsibilities. The Board delegates certain responsibility to senior executives in the Company and regular management meetings are held; following these, information is collated and cascaded up to the Board, including sales and financial information, operational and employee matters.

The Chairman, with support from the Company Secretary, assumes responsibility for the accuracy and timely submission of information to the Board. Key information is verified by external independent groups where appropriate, with our financial records audited by Ernst & Young.

WATERSTONES BOOKSELLERS LIMITED

REPORT AND ACCOUNTS 2020

Company Number: 00610095

STRATEGIC REPORT (CONTINUED)

Wates corporate governance statement (continued)

Opportunity and risk

In the implementation of the Company's vision, the Board ensures its decision making continually promotes the ongoing success of the Company.

Strategic opportunities are highlighted at management level and discussed at the board level. Risk management is delegated to management and considered at board level. A summary of our principle risks is included on page 5. The Board actively seeks to mitigate and manage the risks identified.

The Board manages risk through internal systems and controls, with rigorous approval processes in place for contracts and expenditure. Focus is given to the data security and I.T. integrity of the Company.

Remuneration

In determining remuneration policies, the Company's primary objective is to attract and retain talent as this is recognised to be the foundation of the Company's success. Authority is delegated to the executive, with oversight by the Board where appropriate, to ensure there is sufficient scope for flexibility and senior appointments are approved by Bidco.

The Company continues to invest in the career rewards available at all levels. In setting our remuneration policy we ensure we operate in accordance with the law and that our approach adheres to principles of equality and fairness. The Board is committed to the continued improvement in reducing the gender pay gap within the Company. Our functions keep abreast of market trends and benchmark as appropriate.

Stakeholder relationships and engagement

As a subsidiary of Bidco, the Chairman of the Bidco board acts as the primary interface between the Company and the Shareholders.

Meaningful engagement with its customer base is core to the purpose of the Company, from the service given by booksellers in shops to the central customer service functions and media presence. The Board ensures that the Company has the requisite policies in place to continually improve this relationship.

Employee engagement and consultations are conducted regularly through delegated authority, with email communications sent daily and by means of the Company intranet. The Company continually seeks to improve this engagement, notably through training and improving employee benefits.

The Company seeks to preserve excellent and collaborative relationships with its suppliers. It abides by agreed commercial terms and works proactively to drive efficiencies to the mutual benefit of all parties.

The Company is committed to social responsibility and community engagement, as part of community investment we partner with local and national charities and actively encourage our employees to promote these partnerships.

The Company is committed to improving its impact on climate change by adopting energy efficiency measures and has made considerable investment to improve energy consumption please see SECR reporting on page 7 for further information.

WATERSTONES BOOKSELLERS LIMITED

REPORT AND ACCOUNTS 2020

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STRATEGIC REPORT (CONTINUED)

Key performance indicators ("KPIs")

The Directors consider the key indications of the performance of the Company, both financial and non-financial, to be turnover, gross profit percentage and EBITDA (earnings before interest, tax, depreciation, amortisation and any one-off exceptional costs) pre IFRS 16 lease accounting.

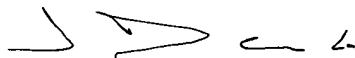
Principal risks and uncertainties

The principal risks relevant to the Company are identified as follows:

- (i) the impact of the Covid-19 pandemic on customer shopping behaviours, including any government actions to limit retail trading;
- (ii) the longer term impact of Covid-19 on customers behavior, particularly in relation to city centres;
- (iii) the competitive nature of its markets, with particular emphasis on the e-commerce strength of Amazon and developing methods of digital delivery of products and content;
- (iv) the general sensitivity of customer confidence and spending in an economic downturn;
- (v) the notable risk that Brexit causes disruption and cost within the supply chain, and further damages consumer confidence;
- (vi) the seasonality of the business, with the reliance on Christmas performance for a high percentage of annual profitability;
- (vii) maintaining appropriate commercial agreements with key suppliers;
- (viii) the reliability of the Company's and key suppliers' supply chains;
- (ix) a failure to sustain or protect the Company's reputation and brand;
- (x) the maintenance and development of information technology systems; and
- (xi) attracting, motivating and retaining key staff, with the impact of Brexit on retention of European staff in the UK a particular consideration.

The Directors ensure that management of these principal risks and uncertainties is addressed in the preparation of, and subsequent monitoring of performance against, Waterstones' strategic and operational plans and policies.

On behalf of the Board



A J Daunt

Director

Date: 20th May 2021

WATERSTONES BOOKSELLERS LIMITED

REPORT AND ACCOUNTS 2020

Company Number: 00610095

DIRECTORS' REPORT

The Directors submit their report and audited financial statements for the 52 weeks ended 25 April 2020, which were approved on behalf of the Board on 20th May 2021.

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.

Directors' liabilities

The Company has granted an indemnity to its Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying third party provision remains in force as at the date of approving the Directors' Report.

Dividends

The Company does not have distributable reserves and therefore no dividend was paid or declared during the period (2019: £nil).

Future developments

The Directors aim to continue the programme of investment and change to secure the future of Waterstones as a quality bookselling business.

Subsequent events

There are no subsequent events.

Financial risk factors

The Company's exposure to, and management of, liquidity risk, interest rate risk, credit risk and foreign exchange risk is set out in Note 26. Further information about liquidity risk is also included under going concern on page 7.

Employee policies

The Company operates a decentralised HR function. This provides greater accountability to employees and aids the development of flexible and entrepreneurial book teams that can thrive under the competitive market pressures in which the Company trades. Decentralised employee policies support a flexible local service, improving response times and maximising the use of available resources, whilst minimising costs.

Employees are provided with information about the Company through the intranet site "Watson" where employees are encouraged to present their questions, suggestions and views. Employees have an opportunity to share directly in the success of the business through an all employee bonus scheme.

The Company is committed to maintaining and improving an equal and diverse workplace, free from discrimination on the grounds of age, gender, nationality, religion, 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.

Disabled employees

The Company gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion. Where existing employees become disabled, it is the Company's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2020****Company Number: 00610095**

DIRECTORS' REPORT (CONTINUED)**Streamlined energy and carbon reporting ("SECR")**

Disclosures relating to energy and carbon emissions as required by The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 (SI 2018/1155) are included within Book Retail Bidco Limited's financial statements.

Donations

The Company made charitable donations of £209,000 (2019: £236,000) in the period under review. It is 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:

- (i) 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
- (ii) 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' responsibilities for the financial statements can be found on page 9, which is deemed to be incorporated by reference in (and shall be deemed to form part of) this report.

Elective resolutions to dispense with holding annual general meetings and the laying of accounts before the Company in a general meeting are currently in force. Ernst & Young LLP are therefore deemed to continue as auditors of the Company.

Going concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the business review section of the Strategic Report on page 2 and the financial risk section of the Directors' Report on page 6. On the date of signing these financial statements of the Company, the factor that has the most uncertainty and the biggest potential impact on the economic circumstances of the Company, is the Covid-19 pandemic.

In 2020 the rapid, worldwide spread of Covid-19 required severe governmental interventions. The governments' measures to contain the pandemic have had, and continue to have, significant impact on the Company. The Company has been subject to periods of full closure of shops and, even when allowed to open, a significant decline in revenue, although mitigated to a degree by an improvement in internet sales. The good progress with vaccinations gives cause for optimism, and shops across the Group reopened in April 2021. Since reopening the stores have been trading above base forecast but it is not certain how customers will respond to the easing of restrictions and whether further periods of lockdown may be required.

The Directors have reviewed cashflow forecasts for the period ended 28 May 2022, along with calculations showing the forecast position in relation to the financial covenant associated with the debt facility of £190m which Book Retail Bidco Limited (parent) holds with Elliott Funds to which the Company is a cross guarantor (see Note 31). The base forecast assumes that shops will remain open, with the initial sales performance broadly in line with the performance previously seen when operating with Covid-19 restrictions, and therefore before the vaccination progress. The base forecast assumes a stepped improvement over the summer, with sales continuing to be slightly down on the 19/20 pre-Covid performance for the rest of the year. Property costs include actual agreements and agreements in principal reached with landlords and, where there is no agreement, the contractual position has been assumed. No benefit of government action has been taken beyond the announced periods communicated by the UK government and devolved administrations in relation to the Job Retention Scheme and business rate relief.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2020****Company Number: 00610095****DIRECTORS' REPORT (CONTINUED)****Going concern (continued)**

The financial covenant associated with the £190m due to Elliott Funds is based on EBITDA/ Net debt. Prolonged shop closures due to Covid-19 will impact this test as a result of the reduced profitability of the Group.

Based on the base forecast, cash resources will be sufficient to meet liabilities as they fall due, although the forecast suggests that the Group may breach the covenant associated with the debt in July 2021 and October 2021. Having received confirmation from Elliott Funds that they are waiving the covenant breach for April 21 and, if required, will waive a covenant breach in July 2021 and/or October 2021, the Directors consider that the Group and Company to be a going concern and have prepared the financial statements on that basis.

Scenarios, including a reverse stress test, have also been modelled to understand the potential for further covenant breaches in either January 2022 or April 2022 which are outside of the periods covered by the waiver commitment. These indicate that if sales dropped by 5.5% on base forecast (14.5% behind the equivalent pre-Covid month) there could be a breach of the covenant in January 2022. The calculations for April 2022 indicate that if sales dropped by 5% on current forecast (13% behind the equivalent pre-Covid month) there would be a breach of the covenant.

Scenarios have also been modelled to understand the impact on the liquidity of the Company. These include lower sales at stores, the impact of a further nationwide lockdown, and a reverse stress test to understand the level that sales would need to fall for the Company to run out of cash. The reverse stress test shows that overall sales would have to be 17.5% lower than the base forecast and 23% lower than the most recent pre-Covid equivalent month throughout the 12-month period. This is considered an unlikely scenario given the data gained over the last twelve months and in particular the latest experience after the April 2021 re-opening. However, in the event of lower sales at stores, whether or not due to an extended future lockdown in which the Company could not open its shops, and there was no additional government funding initiatives, the models indicate that there are circumstances where the Company would not have sufficient cash to meet liabilities as they fall due during the going concern review period. Based on the modelling performed it is likely that the Group and Company would be in breach of the debt covenant before having a liquidity problem.

The Directors acknowledge that falls in sales which create a future covenant breach or liquidity problem are not an altogether implausible scenario in the event of lower sales whether or not due to a further prolonged lockdown, or a lockdown over the key Christmas trading period, accompanied by an absence of government support. With the uncertainty concerning the Covid-19 pandemic and the potential impact of future UK government or devolved administrations decisions, including a full or partial lockdown of retail stores, a reduction in sales could lead to a covenant breach or absence of liquidity and therefore there is a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern. Notwithstanding the above material uncertainty, the Directors believe from their analysis that the Company will continue to trade at levels which mean that the Company is able to meet its liabilities as they fall due throughout the going concern period, and have therefore prepared the accounts on a going concern basis. The financial statements do not contain the adjustments that would result if the Company was unable to continue as a going concern.

On behalf of the Board



A J Daunt

Director

Date: 20th May 2021

WATERSTONES BOOKSELLERS LIMITED

REPORT AND ACCOUNTS 2020

Company Number: 00610095

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the Financial Statements in accordance with applicable United Kingdom law and regulations. Company law requires the Directors to prepare financial statements for each financial period. Under that law, the Directors are required to prepare financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

Under Company Law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs 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 accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 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 international accounting standards in conformity with the requirements of the Companies Act 2006, subject to any material departures disclosed and explained in the financial statements;
- (v) make judgements and estimates that are reasonable and prudent; and
- (vi) prepare the financial statements on the going concern basis unless it is appropriate to presume that the Company will not continue in business.

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.

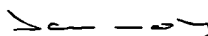
We confirm that, to the best of our knowledge:

- (i) the financial statements, prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, present fairly the assets, liabilities, financial position and profit of the Company; and
- (ii) the Strategic Report and 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.

On behalf of the Board



A J Daunt
Director
Date: 20th May 2021



J Molloy
Director
Date: 20th May 2021

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF WATERSTONES BOOKSELLERS LIMITED

Opinion

We have audited the financial statements of Waterstones Booksellers Limited for the period ended 25 April 2020 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes In Equity, the Cash Flow Statement and the related notes 1 to 32, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 25 April 2020 and of its profit for the period then ended;
- have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty relating to going concern

We draw attention to Note 2 in the financial statements, which describes the ongoing impact of Covid-19 on the Company. There is a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern due to the possibility of a reduction in sales below forecast levels which could lead to a covenant breach or absence of liquidity. Our opinion is not modified in respect of this matter.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF WATERSTONES BOOKSELLERS LIMITED (CONTINUED)

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

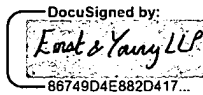
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF WATERSTONES BOOKSELLERS LIMITED (CONTINUED)

Use of our report

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.



Nigel Meredith (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham
Date: May 20, 2021

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2020****Company Number: 00610095****INCOME STATEMENT****For the 52 weeks ended 25 April 2020 and 52 weeks ended 27 April 2019**

		Before exceptional items 2020	Exceptional items 2020	Total 2020
	Notes	£000	£000	£000
Revenue	4	376,024	-	376,024
Cost of sales		(329,045)	(1,153)	(330,198)
Gross profit		46,979	(1,153)	45,826
Administrative expenses		(14,331)	-	(14,331)
Operating profit	5	32,648	(1,153)	31,495
Finance costs	10	(10,421)	-	(10,421)
Finance income	11	1,389	-	1,389
Profit before taxation		23,616	(1,153)	22,463
Income tax expense	12	(1,851)	219	(1,632)
Profit for the period		21,765	(934)	20,831

		Before exceptional items 2019	Exceptional items 2019	Total 2019
	Notes	£000	£000	£000
Revenue	4	392,776	-	392,776
Cost of sales		(349,300)	-	(349,300)
Gross profit		43,476	-	43,476
Administrative expenses		(13,798)	(1,202)	(15,000)
Operating profit	5	29,678	(1,202)	28,476
Finance costs	10	(2,546)	-	(2,546)
Finance income	11	570	-	570
Profit before taxation		27,702	(1,202)	26,500
Income tax expense	12	(4,002)	228	(3,774)
Profit for the period		23,700	(974)	22,726

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 2020 and the comparative period covered the 52 weeks ended 27 April 2019.

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

The Company has initially applied IFRS 16 Leases, using the modified retrospective method. Under this method, the comparative information is not restated, see Note 3.

All results in the current and prior period relate to continuing activities.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2020****Company Number: 00610095****STATEMENT OF COMPREHENSIVE INCOME****For the 52 weeks ended 25 April 2020 and 52 weeks ended 27 April 2019**

	2020	2019
	£000	£000
Profit for the period	20,831	22,726
Total comprehensive income for the period	20,831	22,726

The Company has initially applied IFRS 16 Leases, using the modified retrospective method. Under this method, the comparative information is not restated, see Note 3.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2020****Company Number: 00610095****BALANCE SHEET**

		As at 25 April 2020 £000	As at 27 April 2019 £000
	Notes		
Assets			
Non-current assets			
Plant and equipment	13	42,285	40,737
Intangible assets	14	2,188	651
Right-of-use assets	25	155,192	-
Deferred tax asset	12	4,876	4,728
Investments in subsidiaries	15	27,261	27,261
		231,802	73,377
Current assets			
Inventories	16	63,178	55,898
Current income tax receivable		596	-
Trade and other receivables	17	36,833	47,440
Contract assets	18	149	148
Cash and short-term deposits	19	39,187	18,267
		139,943	121,753
Total assets		371,745	195,130
Liabilities			
Non-current liabilities			
Interest-bearing loans and borrowings	20	(137,063)	-
Provisions	21	(10)	(1,094)
		(137,073)	(1,094)
Current liabilities			
Trade and other payables	22	(41,896)	(77,432)
Amounts due to group undertakings	23	(72,388)	(56,930)
Contract liabilities	24	(18,629)	(17,114)
Income tax payable		-	(1,700)
Interest-bearing loans and borrowings	20	(39,231)	-
Provisions	21	(880)	(701)
		(173,024)	(153,877)
Total liabilities		(310,097)	(154,971)
Net assets		61,648	40,159
Equity			
Share capital	28	71,014	71,014
Accumulated losses		(9,366)	(30,855)
Total equity		61,648	40,159

The Company has initially applied IFRS 16 Leases, using the modified retrospective method. Under this method, the comparative information is not restated, see Note 3.

The financial statements were approved by the Board of Directors 20th May 2021 and were signed on its behalf by:

A J Daunt
Director

J Molloy
Director

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2020****Company Number: 00610095****STATEMENT OF CHANGES IN EQUITY****For the 52 weeks ended 25 April 2020 and 52 weeks ended 27 April 2019**

	Share capital	Accumulated losses	Total
Notes	£000	£000	£000
At 29 April 2018	71,014	(52,518)	18,496
Change in accounting policy	-	(1,312)	(1,312)
Tax impact of change in accounting policy	-	249	249
Adjusted balance at 29 April 2018	71,014	(53,581)	17,433
Profit for the period	-	22,726	22,726
Total comprehensive income	-	22,726	22,726
At 27 April 2019	71,014	(30,855)	40,159
Change in accounting policy 3	-	812	812
Tax impact of change in accounting policy	-	(154)	(154)
Adjusted balance at 27 April 2019	71,014	(30,197)	40,817
Profit for the period	-	20,831	20,831
Total comprehensive income	-	20,831	20,831
At 25 April 2020	71,014	(9,366)	61,648

The Company has initially applied IFRS 16 Leases, using the modified retrospective method. Under this method the comparative information is not restated, see Note 3.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2020****Company Number: 00610095****CASH FLOW STATEMENT****For the 52 weeks ended 25 April 2020 and 52 weeks ended 27 April 2019**

		2020	2019
	Notes	£000	£000
Cash flows from operating activities			
Profit before tax		22,463	26,500
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation and impairment of plant and equipment and right-of-use assets	13,25	48,664	11,350
Amortisation of intangible assets	14	390	486
Net foreign exchange differences	5	113	(154)
Finance income	11	(1,389)	(570)
Finance costs	10	10,421	2,546
Movement in provisions		462	(808)
Working capital adjustments:			
Decrease/(increase) in trade and other receivables and contract assets		3,124	(11,575)
(Increase)/decrease in inventories		(7,280)	1,804
(Decrease)/increase in trade and other payables and contract liabilities		(20,071)	541
Increase/(decrease) in amount due to group undertakings		15,548	(16,845)
		72,445	13,275
Income tax paid		(4,230)	(2,257)
Net cash flows from operating activities		68,215	11,018
Investing activities			
Purchase of plant and equipment and intangible assets		(13,881)	(7,825)
Cash flows arising from the inception of new lease contracts included in right of use assets		346	-
Interest received		1,328	533
Net cash flows used in investing activities		(12,207)	(7,292)
Financing activities			
Interest paid		(10,691)	(1,874)
Payment of principal portion of lease liabilities		(24,434)	-
Net cash flows used in financing activities		(35,125)	(1,874)
Net increase in cash and cash equivalents		20,883	1,852
Opening cash and cash equivalents		18,267	16,561
Net foreign exchange difference		37	(146)
Closing cash and cash equivalents	19	39,187	18,267

The Company has initially applied IFRS 16 Leases, using the modified retrospective method. Under this method, the comparative information is not restated, see Note 3.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2020****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS****1. Corporate information**

The financial statements of Waterstones Booksellers Limited (the "Company") for the period ended 25 April 2020 were authorised for issue by the Board on 20th May 2021. The Company is a limited company, incorporated and resident in England and Wales. Its registered office is at 203-206 Piccadilly, London, W1J 9HD.

2. Accounting policies**Basis of preparation**

The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 as they apply to the financial statements of the Company for the 52 weeks ended 25 April 2020.

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 2020, whilst the comparative period covered the 52 weeks ended 27 April 2019. 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 have been prepared on a historical cost basis. The financial statements are prepared in pounds sterling and all values are rounded to the nearest thousand (£000) except when otherwise indicated.

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 therefore present information about the Company as an individual undertaking and not about its group.

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the business review section of the Strategic Report on page 2 and the financial risk section of the Directors' Report on page 6. On the date of signing these financial statements of the Company, the factor that has the most uncertainty and the biggest potential impact on the economic circumstances of the Company, is the Covid-19 pandemic.

In 2020 the rapid, worldwide spread of Covid-19 required severe governmental interventions. The governments' measures to contain the pandemic have had, and continue to have, significant impact on the Company. The Company has been subject to periods of full closure of shops and, even when allowed to open, a significant decline in revenue, although mitigated to a degree by an improvement in internet sales. The good progress with vaccinations gives cause for optimism, and shops across the Group reopened in April 2021. Since reopening the stores have been trading above base forecast but it is not certain how customers will respond to the easing of restrictions and whether further periods of lockdown may be required.

The Directors have reviewed cashflow forecasts for the period ended 28 May 2022, along with calculations showing the forecast position in relation to the financial covenant associated with the debt facility of £190m which Book Retail Bidco Limited (parent) holds with Elliott Funds to which the Company is a cross guarantor (see Note 31). The base forecast assumes that shops will remain open, with the initial sales performance broadly in line with the performance previously seen when operating with Covid-19 restrictions, and therefore before the vaccination progress. The base forecast assumes a stepped improvement over the summer, with sales continuing to be slightly down on the 19/20 pre-Covid performance for the rest of the year. Property costs include actual agreements and agreements in principle reached with landlords and, where there is no agreement, the contractual position has been assumed. No benefit of government action has been taken beyond the announced periods communicated by the UK government and devolved administrations in relation to the Job Retention Scheme and business rate relief.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2020****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****2. Accounting policies (continued)****Basis of preparation (continued)**

The financial covenant associated with the £190m due to Elliott Funds is based on EBITDA/ Net debt. Prolonged shop closures due to Covid-19 will impact this test as a result of the reduced profitability of the Group.

Based on the base forecast, cash resources will be sufficient to meet liabilities as they fall due, although the forecast suggests that the Group may breach the covenant associated with the debt in July 2021 and October 2021. Having received confirmation from Elliott Funds that they are waiving the covenant breach for April 21 and, if required, will waive a covenant breach in July 2021 and/or October 2021, the Directors consider that the Group and Company to be a going concern and have prepared the financial statements on that basis.

Scenarios, including a reverse stress test, have also been modelled to understand the potential for further covenant breaches in either January 2022 or April 2022 which are outside of the periods covered by the waiver commitment. These indicate that if sales dropped by 5.5% on base forecast (14.5% behind the equivalent pre-Covid month) there could be a breach of the covenant in January 2022. The calculations for April 2022 indicate that if sales dropped by 5% on current forecast (13% behind the equivalent pre-Covid month) there would be a breach of the covenant.

Scenarios have also been modelled to understand the impact on the liquidity of the Company. These include lower sales at stores, the impact of a further nationwide lockdown, and a reverse stress test to understand the level that sales would need to fall for the Company to run out of cash. The reverse stress test shows that overall sales would have to be 17.5% lower than the base forecast and 23% lower than the most recent pre-Covid equivalent month throughout the 12-month period. This is considered an unlikely scenario given the data gained over the last twelve months and in particular the latest experience after the April 2021 re-opening. However, in the event of lower sales at stores, whether or not due to an extended future lockdown in which the Company could not open its shops, and there was no additional government funding initiatives, the models indicate that there are circumstances where the Company would not have sufficient cash to meet liabilities as they fall due during the going concern review period. Based on the modelling performed it is likely that the Group and Company would be in breach of the debt covenant before having a liquidity problem.

The Directors acknowledge that falls in sales which create a future covenant breach or liquidity problem are not an altogether implausible scenario in the event of lower sales whether or not due to a further prolonged lockdown, or a lockdown over the key Christmas trading period, accompanied by an absence of government support. With the uncertainty concerning the Covid-19 pandemic and the potential impact of future UK government or devolved administrations decisions, including a full or partial lockdown of retail stores, a reduction in sales could lead to a covenant breach or absence of liquidity and therefore there is a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern. Notwithstanding the above material uncertainty, the Directors believe from their analysis that the Company will continue to trade at levels which mean that the Company is able to meet its liabilities as they fall due throughout the going concern period, and have therefore prepared the accounts on a going concern basis. The financial statements do not contain the adjustments that would result if the Company was unable to continue as a going concern.

WATERSTONES BOOKSELLERS LIMITED

REPORT AND ACCOUNTS 2020

Company Number: 00610095

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting policies (continued)

Investments in subsidiaries

Investments in subsidiary undertakings are carried at cost, net of impairment losses, if any.

Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- expected to be realised or intended to be sold or consumed in the normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realised within twelve months after the reporting period; or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- it is expected to be settled in the normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within twelve months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2020****Company Number: 00610095**

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

Revenue represents the value of the consideration received or receivable for goods sold to customers, net of discounts given and returns received, excluding value added tax ("VAT") and similar sales-related taxes. It includes book, related product, coffee shop and event ticket sales income.

Sales of goods

The sale of goods to customers in store represents the majority of the Company's revenue. For goods sold in store, revenue is recognised at the point of sale. For goods sold on the internet, revenue is recognised on delivery/collection to/by the customer when the customer is deemed to have control of the goods. Deferred revenue relating to goods in transit at the period end is recognised as a contract liability.

A refund liability is recognised for expected refunds due to customers arising from returns and a contract asset recognised for the Company's right to recover the goods from the customer. Returns are estimated based on expected value.

Gift cards

Sales of gift cards are treated as contract liabilities with the revenue recognised when the gift cards are redeemed. The Company recognises breakage, being the amount attributable to customers' rights to future goods that is expected will never be exercised, in proportion to customers' pattern of redemption.

Loyalty schemes

The Company issues loyalty rewards to customers when they purchase goods which entitles them to a future discount. The loyalty points give rise to a separate performance obligation as they provide a material right to the customer. A portion of the transaction price is allocated to the loyalty points awarded to customers based on their relative stand-alone selling price and recognised as a contract liability until the points are redeemed. Revenue is recognised upon redemption of loyalty points by the customer.

When estimating the stand-alone selling price of the loyalty points, the Company considers the likelihood that the customer will redeem the points. The Company annually reviews the estimates of the points that will be redeemed and any adjustments to the contract liability balance are charged against revenue.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as a reduction in the related expense on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2020****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****2. Accounting policies (continued)****Taxes***Current income tax*

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to, the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting 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 tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside of the income statement is recognised outside of the income statement. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in the income statement.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2020****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****2. Accounting policies (continued)****Taxes***Deferred tax (continued)*

The Company offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Sales tax

Expenses and assets are recognised net of the amount of sales tax, except:

- when the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item; or
- when receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Foreign currency translation*Transactions and balances*

Transactions in foreign currencies are initially recorded at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

Plant and equipment

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

Plant and equipment is stated at cost, net of accumulated depreciation and impairment losses, if any.

Depreciation of 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 and equipment	10 to 33 ¹ / ₃ %
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An item of plant and equipment is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2020****Company Number: 00610095**

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

The Company assesses at contract inception whether a contract is, or contains a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases. The Company recognises lease liabilities representing obligations to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the most reasonably certain lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset. The Company's lease liabilities are included in interest-bearing loans and borrowings (see Notes 20 and 25).

Company as a lessor

Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms. Contingent rents are recognised in the income statement in the period in which they are earned.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2020****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****2. Accounting policies (continued)****Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost.

Where computer software is not an integral part of a related item of computer hardware, the software is treated as an intangible asset. Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring into use the specific software. An internally generated intangible asset arising from the Company's development of computer systems (including websites) is recognised only if the costs are directly associated with the production of identifiable and unique software products which are controlled by the Company and it is probable that future economic benefits will flow to the Company. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss.

Website costs and software costs are determined to have a finite useful life and are amortised over their estimated useful lives using the straight line method.

The annual rates used are:

Website and software costs	20%
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WATERSTONES BOOKSELLERS LIMITED

REPORT AND ACCOUNTS 2020

Company Number: 00610095

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting policies (continued)

Financial liabilities

The Company's financial liabilities comprise trade and other payables and loans and borrowings.

Initial recognition and measurement

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest method. The effective interest method amortisation is included as finance costs in the income statement.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2020****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****2. Accounting policies (continued)****Impairment of non-financial assets**

Further disclosures relating to impairment of non-financial assets are also provided in the following notes:

- Disclosures for significant assumptions - Note 2
- Plant and equipment - Note 13
- Intangible assets - Note 14
- Goodwill and intangible assets with indefinite lives - Note 14
- Right-of-use assets – Note 25

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's ("CGU's") fair value, less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior periods. Such reversal is recognised in the income statement.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives are tested for impairment annually, as appropriate, and when circumstances indicate that the carrying value may be impaired.

Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Company's cash management.

WATERSTONES BOOKSELLERS LIMITED

REPORT AND ACCOUNTS 2020

Company Number: 00610095

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting policies (continued)

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Pension costs

The Company operates a defined contribution pension scheme. Contributions to the scheme are charged in the income statement as they become payable in accordance with the rules of the scheme.

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, expected infrequency or quantum of the events giving rise to them, merit separate presentation. This allows shareholders to better understand the elements of financial performance in the period, so as to facilitate comparison with prior periods and 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.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2020****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****2. Accounting policies (continued)****Judgements and key sources of estimation uncertainty**

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 period. The nature of estimation means that actual outcomes could differ from those estimates.

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 period are as follows:

Revenue recognition in respect of customer loyalty schemes - revenue recognition is based on the fair value of loyalty rewards, the calculation of which is based on expected redemption rates. This calculation requires judgements to be made regarding future redemption rates, however, the Company launched a new loyalty scheme in the prior period and therefore there is limited historical information available. As a result, expected redemption rates are based on current run rates and are regularly monitored.

Revenue from the sale of gift cards - breakage, being the amount attributable to a customer's rights to future goods that it is expected will never be exercised, is recognised in proportion to the customers' pattern of redemption. The calculation of breakage requires redemption rates to be estimated. Historical statistics are used to estimate redemption rates.

Impairment of plant and equipment, right-of-use assets and investments - plant and equipment, right-of-use assets and investments are reviewed for impairment/reversal of an impairment if events or changes in circumstances indicate that the carrying value may not be recoverable or that a previously recognised impairment loss may have reversed. When a review for impairment/reversal of an impairment is conducted, the recoverable amount of an asset or a cash generating unit ("CGU") is based on the value in use calculation prepared using management assumptions and estimates. Key assumptions for the value in use calculation include revenue, margin, operating costs and discount rate. Identification of a CGU involves significant judgement regarding largely independent cash flows and geographical proximity of stores.

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, future sales prices and inventory loss trends. Historical sales performance statistics are used in the formulation of these judgements.

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 and also in respect of the probability that future taxable profits will be available to support the recognition of deferred tax assets. 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 closures 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 for in the period in which the revision is made. Key assumptions for provisions are those regarding future costs, the timing of those costs and discount rates.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2020****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****2. Accounting policies (continued)****New accounting standards**

The Company has adopted the following amended accounting standards which were mandatory for the first time for the financial period ending 25 April 2020. They have no material impact on the Company with the exception of IFRS 16 Leases, the impact of which is set out in Note 3.

- IFRS 3 Business Combinations: Amendments resulting from Annual Improvements 2015-2017 Cycle (remeasurement of previously held interest);
- IFRS 9 Financial instruments: Amendments regarding prepayment features with negative compensation and modifications of financial liabilities;
- IFRS 11 Joint arrangements: Annual Improvements 2015-2017 Cycle (remeasurement of previously held interest);
- IFRS 16 Leases: Original issue;
- IAS 12 Income taxes: Amendments resulting from Annual Improvements 2015-2017 Cycle (income tax consequences of dividends);
- IAS 19 Employee benefits: Amendments regarding plan amendments, curtailments or settlements;
- IAS 23 Borrowing costs: Amendments resulting from Annual Improvements 2015-2017 Cycle (borrowing costs eligible for capitalisation);
- IAS 28 Investments in Associates and Joint Ventures: Amendments regarding long-term interests in associates and joint ventures; and
- IFRIC 23 - Uncertainty over income tax treatments.

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 3 Business Combinations: Amendments to clarify the definition of a business, effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020;
- IFRS 7 Financial Instruments: Disclosures: Amendments regarding pre-replacement issues in the context of IBOR reform, effective for annual periods beginning on or after 1 January 2020;
- IFRS 9 Financial Instruments: Amendments regarding pre-replacement issues in the context of IBOR reform, effective for annual periods beginning on or after 1 January 2020;
- IFRS 17 Insurance contracts: Original issue, effective for annual periods beginning on or after 1 January 2021;
- IAS 1 Presentation of financial statements: Amendments regarding the definition of material, effective for annual periods beginning on or after 1 January 2020; and
- IAS 8 Accounting policies, changes in accounting estimates and errors: Amendments regarding the definition of material, effective for annual periods beginning on or after 1 January 2020.

The Company intends to adopt these standards when they become effective.

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

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2020****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****3. Change in accounting policy**

The Company has adopted IFRS 16 Leases, during the period.

Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 28 April 2019. Right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before 28 April 2019. The weighted average incremental borrowing rate applied to the lease liabilities at 28 April 2019 was 5.3%.

The following table presents the reconciliation of lease liabilities at 28 April 2019:

	£000
Minimum lease payments under non-cancellable operating leases at 27 April 2019	224,543
Discounted using the incremental borrowing rate at 28 April 2019	(47,434)
Assessment of lease term on transition	(14,617)
Lease liabilities recognised at 28 April 2019	162,492

Summary of adjustments

The Company has applied IFRS 16 using the modified retrospective method – i.e. by recognising the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of equity at 28 April 2019. Therefore the comparative information has not been restated and continues to be reported under IAS 17 Leases.

The Company has utilised a number of practical expedients available on first time adoption of IFRS 16, the expedients are set out below:

- a single discount rate has been applied to a portfolio of leases with reasonably similar characteristics;
- the right of use assets recognised at the date of initial application have been adjusted by the provision for onerous leases recognised immediately before the date of initial application, rather than performing an impairment review on transition date; and
- initial direct costs have been excluded from the measurement of the right of use asset at the date of initial application.

The impact on the opening balance sheet is to recognise right-of-use asset and lease liabilities together with a reduction in other debtors, prepayments and accrued income, other payables, accruals and deferred income and provisions.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2020****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****3. Change in accounting policy (continued)**

This impact is summarised below:

	At 28 April 2019 Prior to adoption of IFRS 16 £000	Impact on adoption of IFRS 16 Leases £000	At 28 April 2019 Following adoption of IFRS 16 £000
Right-of-use assets	-		
Leasehold property	-	154,994	154,994
Motor vehicles	-	368	368
Deferred tax asset	4,867	(154)	4,713
Trade and other receivables			
Other debtors	4,667	(1,033)	3,634
Prepayments and accrued income	27,452	(6,511)	20,942
Trade and other payables			
Other payables	(25,297)	1,659	(23,638)
Accruals and deferred income	(20,712)	12,460	(8,252)
Interest-bearing loans and borrowings			
Lease liabilities - current	-	(28,179)	(28,179)
Lease liabilities - non current	-	(134,313)	(134,313)
Provisions	(1,795)	1,367	(428)
Net assets	40,159	658	40,817
Accumulated losses	(30,855)	658	(30,197)
Total equity	40,159	658	40,817

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2020****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****4. Revenue**

Revenue disclosed in the income statement is analysed as follows:

	2020	2019
	£000	£000
Sale of goods	376,024	392,776
	376,024	392,776

5. Operating profit

Operating profit is stated after charging (crediting):

	2020	2019
	£000	£000
Depreciation and amortisation (see Notes 13, 14 and 25)	47,901	11,747
Impairment charges (see Notes 13 and 25)	1,153	89
Cost of inventories recognised as an expense	170,598	182,029
Movement in inventory provision	30	(487)
Net foreign exchange losses	113	(154)
Operating lease rentals:		
Minimum rentals	311	44,911
Percentage rentals	57	118
Sublease rentals	(132)	(428)

The Company has initially applied IFRS 16 Leases, using the modified retrospective method. Under this method, the comparative information is not restated, see Note 3.

6. Exceptional items

Recognised in arriving at operating profit:

	2020	2019
	£ 000	£ 000
Included in Cost of sales:		
Impairment of right-of-use assets and tangible fixed assets	1,153	-
	1,153	-
Included in Administrative expenses		
Exceptional Directors' remuneration	-	1,202
	-	1,202
	1,153	1,202

The exceptional directors' remuneration in the prior period arose following the completion of an exercise to sell a majority equity stake in Waterstones.

The impairment charge in the current period is has arisen from prevailing market trading conditions which have been heavily impacted by the outbreak of Covid-19 during the financial year which have had, and continue to have, a significant adverse impact on Waterstones.

A tax credit of £219,000 (2019: £228,000) arose in respect of this charge.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2020****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****7. Fees to auditors**

	2020	2019
	£ 000	£ 000
Audit of the financial statements	174	191
Non audit services:		
Audit related assurance services	-	14

The audit fee disclosed above represents the statutory audit fee for the Company.

8. Directors' emoluments

	2020	2019
	£000	£000
Salaries and fees	563	1,839
Pension contributions	16	20
	579	1,859

Two (2019: one) of the Directors are (2019: is) accruing benefits under the Company's defined contribution pension arrangements.

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

	2020	2019
	£000	£000
Salaries and fees	377	1,736
	377	1,736

The amounts above exclude amounts recharged to other group companies for services provided to other group companies.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2020****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****9. Employee costs**

	2020	2019
	£000	£000
Employee costs, including Directors' emoluments:		
Wages and salaries	52,518	54,695
Social security costs	4,516	4,422
Other pension costs	2,421	1,748
	59,455	60,865

The average monthly number of people employed by the Company during the period was 3,268 (2019: 3,169).

10. Finance costs

	2020	2019
	£000	£000
Interest on lease liabilities (see Note 25)	8,971	-
Interest payable to group undertakings	1,450	2,546
	10,421	2,546

The Company has initially applied IFRS 16 Leases, using the modified retrospective method. Under this method, the comparative information is not restated, see Note 3.

11. Finance income

	2020	2019
	£000	£000
Bank interest receivable	143	104
Interest receivable from group undertakings	1,246	466
	1,389	570

12. Income tax

The major components of income tax expense for the periods ended 25 April 2020 and 27 April 2019 are:

Income statement

	2020	2019
	£000	£000
UK current income tax, current period	1,936	3,271
UK current income tax, prior period	(2)	15
Total current income tax	1,934	3,286
Deferred tax, current period	268	474
Deferred tax, effect of change in rates	(556)	-
Deferred tax, prior periods	(14)	14
Total income tax expense reported in the income statement	1,632	3,774

The tax charge includes a credit of £219,000 (2019: £228,000) in relation to the exceptional operating debit of £1,153,000 (2019: £1,202,000), details of which can be found in Note 6.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2020****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****12. Income tax (continued)**

Reconciliation of tax expense and accounting profit multiplied by the Company's tax rate for the periods ended 25 April 2020 and 27 April 2019:

	2020 £000	2019 £000
Accounting profit before income tax	22,463	26,500
At the Company's statutory income tax rate of 19% (2019: 19%)	4,268	5,035
Effects of:		
Expenses not deductible for tax purposes	176	210
Difference in tax rate between current and deferred tax	-	(27)
Effect of changes in rates	(555)	-
Group relief claimed	(2,241)	(1,473)
Adjustment in respect of prior periods	(16)	29
At effective tax rate of 8.0% (2019: 14.2%)	1,632	3,774

Deferred tax*Provided deferred tax*

Deferred tax relates to the following:

	Balance sheet		Income statement	
	2020 £000	2019 £000	2020 £000	2019 £000
Decelerated capital allowances	4,664	4,728	64	488
Other timing differences	212	-	(366)	-
Deferred tax (credit)/expense			(302)	488
Net deferred tax asset	4,876	4,728		
Reflected in the balance sheet as follows:				
Deferred tax asset	4,876	4,728		
Deferred tax asset, net	4,876	4,728		

The movement in the deferred tax balance is set out below:

	2020 £000	2019 £000
At 28 April 2019/29 April 2018	4,728	4,967
Impact on adoption of IFRS Revenue	-	249
Impact on adoption of IFRS 16 Leases	(154)	-
Adjusted balance at 28 April 2019/29 April 2018	4,574	5,216
Tax expense for the period recognised in the income statement	302	(488)
Adjusted balance at 25 April 2020/27 April 2019	4,876	4,728

The Company has initially applied IFRS 16 Leases, using the modified retrospective method. Under this method, the comparative information is not restated, see Note 3.

Unprovided deferred tax

There are unprovided deferred tax assets in respect of capital losses of £141,000 (2019: £141,000) and trading losses of £nil (2019: £42,000). These deferred tax assets have not been recognised due to uncertainty over their recoverability

There are no unprovided deferred tax liabilities at the current or prior period end.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2020****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****12. Income tax (continued)****Factors that may affect future tax charges**

During the period the Government announced a change in the enacted corporation tax rate for the financial years ending 31 March 2021 and 2022 to maintain the existing 19% rate (previously this rate had been legislated to reduce to 17% from 1 April 2020). Deferred tax has been calculated using this revised rate. In the budget on 3 March 2021 by HM Government, legislation to increase the main rate of corporation tax from 19% to 25% from 1 April 2023 was announced. This will be reflected in the Company's financial results once substantively enacted.

The Company has estimated that if the deferred tax balances as at 25 April 2020 that are expected to unwind after 1 April 2023 were remeasured at 25%, this would result in an increase in the net deferred tax asset of approximately £1.5m.

13. Plant and equipment

	Plant and equipment £000
Cost at 28 April 2018	179,256
Disposals	(2,118)
Additions	6,950
Cost at 27 April 2019	184,088
Disposals	(1,896)
Additions	12,152
Cost at 25 April 2020	194,344
Depreciation at 28 April 2018	133,818
Charge for period	11,261
Impairment	89
Disposals	(1,817)
Depreciation at 27 April 2019	143,351
Charge for period	10,497
Impairment	107
Disposals	(1,896)
Depreciation at 25 April 2020	152,059
Net book value at 25 April 2020	42,285
Net book value at 27 April 2019	40,737

Plant and equipment are reviewed for impairment/reversal of an impairment if events or changes in circumstances indicate that the carrying value may not be recoverable or that a previously recognised impairment loss may have reversed. When a review for impairment/reversal of an impairment is conducted, the recoverable amount of an asset or a cash generating unit ("CGU") is based on the value in use calculation prepared using management assumptions and estimates. Identification of a CGU involves significant judgement regarding largely independent cash flows and geographical proximity of stores.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2020****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****13. Plant and equipment (continued)**

Plant and equipment was written down by £107,000 (2019: £89,000) following an impairment review based on prevailing market trading conditions. The market trading conditions have been heavily impacted by the outbreak of Covid-19 during the financial year which have had, and continue to have, a significant adverse impact on Waterstones. The recoverable amounts of assets were determined from value in use calculations that incorporated cash flow forecasts covering a 3 year period, with an inflation rate of 1.7% thereafter, discounted at an appropriate pre-tax discount rate of 12.3% (2019: 10.0%). Key assumptions for the value in use calculations were those regarding revenue, margin, operating costs and discount rate. The first year cashflow reflects the impact of Covid-19, including extended lockdowns, in the year ending April 21 with the assumptions for the subsequent year detailed in the going concern statement. The cash flow also includes assumptions on operating cost savings based on management experience and assumptions. The cash flows reflected management's best estimates in the uncertain circumstances created by Covid-19 of revenue, margin, operating costs and discount rate over the forecast period and does not assume that there will be any further enforced lockdowns. The total recoverable amount of the assets impaired was £nil.

14. Intangible assets

	Goodwill	Website costs	Software costs	Total
	£000	£000	£000	£000
Cost at 28 April 2018	69,347	965	2,702	73,014
Additions	-	-	46	46
Disposals	-	-	(5)	(5)
Cost at 27 April 2019	69,347	965	2,743	73,055
Additions	-	461	1,466	1,927
Disposals	-	-	(3)	(3)
Cost at 25 April 2020	69,347	1,426	4,206	74,979
Amortisation at 28 April 2018	69,347	621	1,955	71,923
Charge for period	-	194	292	486
Disposals	-	-	(5)	(5)
Amortisation at 27 April 2019	69,347	815	2,242	72,404
Charge for period	-	213	177	390
Disposals	-	-	(3)	(3)
Amortisation at 25 April 2020	69,347	1,028	2,416	72,791
Net book value at 25 April 2020	-	398	1,790	2,188
Net book value at 27 April 2019	-	150	501	651

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 plc on 28 June 2011 for £53.5m on a cash-free, debt-free basis.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2020****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****15. Investments in subsidiaries**

	Cost	Provision	Net book value
	£000	£000	£000
At 25 April 2020	27,261	-	27,261
At 27 April 2019	27,261	-	27,261

The Company's direct and indirect subsidiary undertakings, which are 100% owned, are as follows:

Name of undertaking	Country of incorporation	Status
Waterstones Overseas Limited	England & Wales	Non-trading
Hatchards UK Limited	England & Wales	Dormant
Waterstones Academic Bookstores Limited	England & Wales	Dormant
Ottakar's Limited	England & Wales	Dormant
Ottakar's Town Limited	England & Wales	Dormant
The Waterstones Pension Trustee (Ireland) Limited	Ireland	Non-trading

All of the above shareholdings are held directly with the exception of Ottakar's Limited and Ottakar's Town Limited.

The registered address of all subsidiaries, with the exception of The Waterstones Pension Trustee (Ireland) Limited, is 203-206 Piccadilly, London, W1J 9HD. The registered address for The Waterstones Pension Trustee (Ireland) Limited is Sixth Floor, 2 Grand Canal Square, Dublin 2, Ireland.

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.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2020****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****17. Trade and other receivables**

	2020	2019
	£000	£000
Current:		
Trade receivables	620	467
Amounts due from fellow subsidiary undertakings	700	817
Amounts due from parent undertaking	24,297	14,037
Amounts due from other related parties	157	-
Other receivables	9,033	4,667
Prepayments and accrued income	2,026	27,452
	36,833	47,440

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

Trade receivables are stated net of a provision for impairment of £93,000 (2019: £19,000). Trade receivables are non-interest-bearing and are generally on 30 day terms. Other receivables are also non-interest-bearing.

The amounts due from fellow subsidiary undertakings relates to intercompany trading and is usually settled monthly with no interest charged.

The amounts due from parent undertaking relates to an intercompany balance which has no fixed repayment date and which accrues interest at 6.0%.

The amounts due from other related parties have no fixed repayment date and do not accrue interest.

Credit risk is limited as the Company has minimal levels of trade receivables due to the nature of its retailing business. See Note 26 for a discussion of credit risk.

The Company has initially applied IFRS 16 Leases, using the modified retrospective method. Under this method, the comparative information is not restated and therefore the comparative balances stated above include amounts which are now included in right-of-use assets, see Note 3.

18. Contract assets

	2020	2019
	£000	£000
Contract assets	149	148
	149	148

Contract assets comprise the Company's right to recover goods from the customer under its returns policy.

The Company uses the expected value method to estimate the value of goods that will be returned. The revenue relating to expected returns is deferred and recorded in trade and other payables. The carrying value of the stock expected to be returned is recorded as a contract asset.

19. Cash and short term deposits

	2020	2019
	£000	£000
Cash at bank and in hand	39,187	18,267
	39,187	18,267

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

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2020****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****20. Interest-bearing loans and borrowings**

	2020	2019
	£000	£000
Non-current:		
Lease liabilities (Note 25)	137,063	-
	137,063	-
Current:		
Lease liabilities (Note 25)	39,231	-
	39,231	-

The Company has initially applied IFRS 16 Leases, using the modified retrospective method. Under this method, the comparative information is not restated and therefore the comparative balances stated above exclude amounts for leases previously accounted for as operating leases under IAS 17 Leases.

21. Provisions

	Provisions
	£000
At 27 April 2019	1,795
At 28 April 2019	1,795
Impact on adoption of IFRS 16 Leases	(1,367)
Adjusted balance at 28 April 2019	428
Provisions created in the period	911
Provisions utilised	(449)
At 25 April 2020	890
Analysed as:	
Current	880
Non-current	10
	890

Of the total provisions, £nil (2019: £601,000) is expected to be utilised after 5 years from the balance sheet date.

The Company has initially applied IFRS 16 Leases, using the modified retrospective method. Under this method, the comparative information is not restated and therefore the comparative balances stated above include amounts which are now included in right-of-use assets, see Note 3.

22. Trade and other payables

	2020	2019
	£000	£000
Current:		
Trade payables	27,449	31,423
Other payables	6,299	25,297
Accruals and deferred income	8,148	20,712
	41,896	77,432

The carrying value of trade and other payables approximates to fair value. Trade payables are non-interest-bearing and are generally on 30-60 day terms. Other payables are also non-interest-bearing.

The Company has initially applied IFRS 16 Leases, using the modified retrospective method. Under this method, the comparative information is not restated and therefore the comparative balances stated above include amounts which are now included in right-of-use assets, see Note 3.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2020****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****23. Amounts due to group undertakings**

	2020	2019
	£000	£000
Current:		
Loans due to UK parent undertaking	-	10,693
Loans due to fellow subsidiary undertakings	15,956	14,416
Other amounts due to overseas parent undertakings	-	492
Other amounts owed to UK parent undertaking	25,103	-
Other amounts due to subsidiary undertakings	31,329	31,329
	72,388	56,930

The loans due to UK parent undertaking in the prior period were due on demand. Interest accrued on these balances at the base rate of Barclays Bank plc at date of advance plus 4%, or 7% per annum, whichever was higher.

The loans due to fellow subsidiary undertakings are repayable on demand. Interest is chargeable on £9,731,000 (2019: £5,720,000) of this balance at 4% and on £6,225,000 (2019: £8,696,000) of this balance at the base rate of Barclays Bank plc at date of advance plus 4% or 7% per annum, whichever is higher.

The other amounts due to overseas parent undertakings and subsidiary undertakings are non-interest-bearing with no fixed repayment date.

The other amounts due to UK parent undertaking have no fixed repayment date and accrue interest at 6.0%.

24. Contract liabilities

Contract liabilities comprise consideration received for performance obligations that have not been satisfied by the Company at the period end arising from loyalty schemes, the sale of gift cards and internet sales.

Loyalty schemes

The Company issues loyalty rewards to customers when they purchase goods which entitles them to a future discount. The total transaction price is allocated between the fair value of the goods sold and the rewards issued based on their standalone fair values. The fair value of the loyalty rewards is adjusted for expected breakage, being the amount attributable to a customer's rights to future goods that it is expected will never be exercised. The amount attributed to the loyalty rewards is deferred within the contract liabilities balance.

Gift cards

Sales of gift cards are treated as contract liabilities with the revenue recognised when the gift cards are redeemed. The Company recognises breakage, being the amount attributable to a customer's rights to future goods that it is expected will never be exercised, in proportion to the customers' pattern of redemption.

Internet sales

For goods sold on the internet, the sale is recognised on delivery/collection to/by the customer when the customer is deemed to have control of the goods. Deferred revenue relating to goods in transit at the period end is recognised as a contract liability.

Balances and movement in the period

	2020	2019
	£000	£000
Contract liabilities	18,629	17,114
Revenue recognised in the period from:		
Amounts recognised in contract liabilities at the beginning of the period	7,990	6,660
	7,990	6,660

The Company expects to recognise the revenue arising from contract liabilities over a period of 15 (2019: 8) years.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2020****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****25. Leases****Company as a lessee**

The Company leases stores and motor vehicles for use in its operations.

Right of use assets

	Leasehold property	Motor vehicles	Total
	£000	£000	£000
As at 27 April 2019	-	-	-
As at 28 April 2019	-	-	-
Impact on adoption of IFRS 16 Leases	154,994	368	155,362
Adjusted balance as at 28 April 2019	154,994	368	155,362
Additions	37,580	310	37,890
Charge for the period	(36,826)	(188)	(37,014)
Impairment	(1,046)	-	(1,046)
As at 25 April 2020	154,702	490	155,192

Leasehold property right of use assets were written down by £1,046,000 following an impairment review based on prevailing market trading conditions. The market trading conditions have been heavily impacted by the outbreak of Covid-19 during the financial year which have had, and continue to have, a significant adverse impact on Waterstones. The recoverable amounts of assets were determined from value in use calculations that incorporated cash flow forecasts covering a 3 year period, with an inflation rate of 1.7% thereafter, discounted at an appropriate pre-tax discount rate of 12.3% (2019: 10.0%). Key assumptions for the value in use calculations were those regarding revenue, margin, operating costs and discount rate. The first year cashflow reflects the impact of Covid-19, including extended lockdowns, in the year ending April 21 with the assumptions for the subsequent year detailed in the going concern statement. The cash flow also includes assumptions on operating cost savings based on management experience and assumptions. The cash flows reflected management's best estimates in the uncertain circumstances created by Covid-19 of revenue, margin, operating costs and discount rate over the forecast period and does not assume that there will be any further enforced lockdowns.

Lease liabilities

Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the period:

	2020
	£000
Balance at 27 April 2019	-
Balance at 28 April 2019	-
Impact on adoption of IFRS 16 Leases	162,492
Adjusted balance at 28 April 2019	162,492
Additions	38,236
Accretion of interest	8,971
Payments	(33,405)
As at 25 April 2020	176,294
Current (Note 20)	39,231
Non-current (Note 20)	137,063

The maturity analysis of lease liabilities is disclosed in Note 26.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2020****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****25. Leases (continued)****Company as a lessee (continued)**

The following are the amounts recognised in profit or loss:

	2020
	£000
Depreciation expense of right-of-use assets	37,014
Impairment expense of right-of-use assets	1,046
Interest expense on lease liabilities	8,971
Expense related to short term leases (included in cost of sales)	311
Variable lease payments (included in cost of sales)	57
Total amount recognised in profit or loss	47,399

The Company had total cash outflows for leases of £34,833,000 in the period.

The Company has several lease contracts that include termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Company's business needs. Management exercises significant judgement in determining whether these termination options are reasonably certain to be exercised.

Set out below are the undiscounted potential future rental payments relating to periods following the exercise date of termination options that are not included in the lease term.

	Within 5 years	More than 5 years	Total
	£000	£000	£000
2020			
Termination options expected to be exercised	21,305	330	21,635
	21,305	330	21,635

The Company has initially applied IFRS 16 Leases, using the modified retrospective method. Under this method, the comparative information is not restated and therefore the disclosures above include amounts related to leases previously treated as operating leases and expensed to the income statement on a straight-line basis over the lease term, now included in right-of-use assets and interest bearing loans and borrowings, see Note 3.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2020****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****26. Financial risk factors**

The Company's business exposes it to certain financial risks, such as liquidity risk, interest rate risk, credit risk and foreign exchange risk. Further information about liquidity risk is also included under going concern on page 7.

Liquidity risk

During the period under review the Company had sufficient funds and access to funding facilities from its parent undertaking, Bidco, to satisfy its current requirements.

Analysis of the maturity profile of the Company's financial liabilities at 25 April 2020 and 27 April 2019 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
Trade and other payables	382	41,514	-	-	-	41,896
Contract liabilities	17,341	1,288	-	-	-	18,629
Amounts due to group undertakings	72,388	-	-	-	-	72,388
Lease liabilities	8,151	7,770	23,310	86,423	50,640	176,294
At 25 April 2020	98,262	50,572	23,310	86,423	50,640	309,207
Trade and other payables	375	77,057	-	-	-	77,432
Contract liabilities	17,028	86	-	-	-	17,114
Amounts due to group undertakings	56,930	-	-	-	-	56,930
At 27 April 2019	74,333	77,143	-	-	-	151,476

The Company has initially applied IFRS 16 Leases, using the modified retrospective method. Under this method, the comparative information is not restated, see Note 3.

Interest rate risk

The Company is exposed to interest rate risk from its borrowings and cash deposits. The net exposure is monitored on a regular basis.

Credit risk

The Company's credit risk arises from its cash and outstanding receivables. During the period the Company managed cash balances by repaying drawings under the facilities it had with its parent undertaking.

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.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. Financial risk factors (continued)

Foreign exchange risk

The Company is exposed to foreign exchange risk from its financing and operating activities.

Forward foreign exchange contracts are used to hedge the foreign exchange risk of imports where volumes are significant. No speculative positions are entered into. There were no currency contracts outstanding at the current or prior balance sheet dates.

The Company is also exposed to foreign currency translation risk through its borrowings in foreign currency. The Company does not hedge this exposure.

Sensitivity analysis

The following analysis illustrates the Company's sensitivity to changes in market variables and shows the impact on the result before tax and shareholders' equity.

Interest rate sensitivity

Based on the Company's net funds position at the period end, and including interest-bearing intercompany loans but excluding fixed rate borrowings, a 100 basis points movement in interest rates would affect the Company's result before tax by approximately £nil (2019: £0.1m) and shareholders' equity by approximately £nil (2019: £0.1m).

Foreign exchange rate sensitivity

A 10% change in the value of Euro against Sterling would affect the Company's result before tax by approximately £1.8m (2019: £1.6m) and shareholders' equity by approximately £1.4m (2019: £1.3m).

A 10% change in the value of Dollar against Sterling would affect the Company's result before tax by approximately £0.1m (2019: £0.1m) and shareholders' equity by approximately £0.1m (2019: £nil).

Capital management

During the period 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 cash and short-term deposits (see Note 19), loans and borrowings through its intra-group facilities (see Note 17 and Note 23), interest bearing loans and borrowings (see Note 20) and equity attributable to the parent company (see Note 28).

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2020****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****27. Changes in liabilities arising from financing activities**

	At 28 April 2019 £000	Impact on adoption of IFRS 16 Leases £000	Adjusted balance at 28 April 2019 £000	Cash flow £000	Other non- cash changes £000	At 25 April 2020 £000
Current lease liabilities (Note 25)	-	(28,180)	(28,180)	33,405	(44,456)	(39,231)
Non-current lease liabilities (Note 25)	-	(134,312)	(134,312)	-	(2,751)	(137,063)
Total liabilities from financing activities	-	(162,492)	(162,492)	33,405	(47,207)	(176,294)

The 'Other' column includes the effect of the reclassification of the non-current portion of lease liabilities to current lease liabilities due to the passage of time, the effect of accrued but not yet paid interest on lease liabilities and the commencement of leases.

The Company has initially applied IFRS 16 Leases, using the modified retrospective method. Under this method, the comparative information is not restated, see Note 3.

28. Issued share capital

	2020 Number '000	2019 Number '000	2020 £000	2019 £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

The Company has one class of share capital, namely £1 ordinary shares, of which there are 71,014,000 allotted and called up, all fully paid. There are no special rights or preferences attaching to the shares, and there are no restrictions on the distribution of dividends and the repayment of capital.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2020****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****29. Pension arrangements**

The Waterstones Group Personal Pension Plan, a defined contribution scheme offered by the Company to all employees in the UK, is established under a trust. The Plan provides members with individual pension saving accounts in their own name, with a range of investment options available. Under the auto-enrolment element of the Plan, employees have to pay 4% of qualifying earnings into the scheme which is matched by the Company. There is also a voluntary element to the Plan under which members can choose to pay a percentage of pensionable pay, with the members' contributions matched by the Company up to a maximum of 6.5% of pensionable pay. Employer contributions to the scheme during the period were £2,421,000 (2019: £1,748,000).

30. Related party transactions

Transactions entered into with related parties during the period are as follows:

	Net interest payable accrued during the period	Services rendered to/(from) related party	Fixed assets transferred to related party	Goods sold to related party
	£000	£000	£000	£000
<i>With immediate parent undertaking:</i>				
Book Retail Bidco Limited				
2020	(694)	39	-	-
2019	1,069	-	-	-
<i>With fellow subsidiary undertakings:</i>				
Waterstones Booksellers Ireland Limited				
2020	682	105	-	527
2019	582	142	-	462
Waterstone's Booksellers Amsterdam B.V.				
2020	54	48	-	111
2019	61	44	-	69
Waterstone's Booksellers Belgium SA				
2020	162	48	-	47
2019	151	44	-	52
W. & G. Foyle Limited				
2020	-	308	-	5,873
2019	-	308	-	1,643

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2020****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****30. Related party transactions (continued)**

Balances outstanding with related parties at the end of the period are as follows:

	Amounts owed by related party £000	Amounts owed to related party £000
<i>With overseas parent undertaking:</i>		
Book Retail Topco Limited		
2020	-	-
2019	-	492
<i>With UK parent undertaking:</i>		
Book Retail Bidco Limited		
2020	24,297	25,103
2019	14,037	10,693
<i>With fellow subsidiary undertakings:</i>		
Waterstones Booksellers Ireland Limited		
2020	254	13,408
2019	281	10,937
Waterstone's Booksellers Amsterdam B.V.		
2020	62	-
2019	49	1,121
Waterstone's Booksellers Belgium SA		
2020	59	2,548
2019	60	2,358
Hatchards UK Limited		
2020	-	20,000
2019	-	20,000
Ottakar's Limited		
2020	-	196
2019	-	196
Waterstones Overseas Limited		
2020	-	11,133
2019	-	11,133
W. & G. Foyle Limited		
2020	325	-
2019	427	-
<i>With related undertakings:</i>		
Barnes and Noble, Inc		
2020	78	-
2019	-	-
Waterstones Employee Benefit Trust		
2020	79	-
2019	-	-

See Notes 17 and 23 for details of the terms and conditions relating to the related party balances.

WATERSTONES BOOKSELLERS LIMITED**REPORT AND ACCOUNTS 2020****Company Number: 00610095****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****30. Related party transactions (continued)****Remuneration of key management personnel**

The remuneration of the key management personnel of the Company is set out below.

	2020	2019
	£000	£000
Short term employment benefits	1,268	718
Other long term benefits	-	623
Post employment benefits	38	20
Share-based payment transactions	-	498
Total compensation paid to key management personnel	1,306	1,859

31. Contingent liabilities

The Company is a guarantor to a £190,000,000 bank loan facility held by the immediate parent undertaking of the Company, Bidco. Part of the security for this loan facility is a debenture on the assets of the Company. Including interest, the amount outstanding under this facility at the period end was £192,179,000.

32. Ultimate parent undertaking and controlling party

The immediate parent undertaking of the Company is Bidco and the ultimate parent company is Book Retail Investco Limited (incorporated in Jersey). Book Retail Investco Limited is wholly owned and controlled by the Elliott funds. The Elliott funds receive investment advice, directly and indirectly, from their investment adviser Elliott Management Corporation, incorporated in Delaware, U.S.A., and its affiliates.

The largest group, including the Company, for which consolidated accounts are prepared is that headed by Book Retail Midco Limited, the smallest group is that headed by Bidco. Copies of the financial statements for both of these companies can be obtained from the Company Secretary, 203-206 Piccadilly, London, W1J 9HD.