

Company Number 07673642

Waterstones Holdings Limited

Consolidated Financial Statements

52 weeks ended 27 April 2013

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COMPANY INFORMATION

DIRECTORS

A J Daunt
M Groenberg
G N Perren
A L Mamut
M T C Curtis
Lord D Stevenson
R C A Hingley

SECRETARY

M T Miles (appointed 17 January 2013)
A R Tulloch (resigned 17 January 2013)

REGISTERED OFFICE

203-206 Piccadilly
London
W1J 9HD

COMPANY NUMBER

07673642

AUDITORS

Ernst & Young LLP
1 Colmore Square
Birmingham
B4 6HQ

DIRECTORS' REPORT

The Directors submit their report and audited financial statements for the 52 weeks ended 27 April 2013, which were approved on behalf of the Board on 17 October 2013

The Company acts as a holding company for the Waterstones businesses, which were acquired on 28 June 2011. Consequently, the trading figures for the previous period stated in these financial statements relate to the 45 week period from this acquisition date to 28 April 2012 and so are not directly comparable

Business review

The Group operates as a bookseller through a chain of bookshops in the United Kingdom, Ireland, Holland and Belgium and through the Waterstones.com e-commerce website

On 28 June 2011, the entire issued share capital of each of Waterstones Booksellers Limited, Waterstones Booksellers Ireland Limited, Waterstones Booksellers Belgium SA and Waterstones Booksellers Amsterdam BV was acquired from HMV Group plc for £53.5m on a debt and cash free basis. This purchase price was less than the fair value of the assets acquired, resulting in a gain of £12.8m being recognised in the prior period. The first period of trading was impacted by the disruption of a change of ownership coupled with a difficult high street book market caused by strong competition from online retailers and the growth of digital reading.

Although the underlying market conditions remain challenging, the new management team has made significant progress in transforming the acquired businesses, striving for excellence in bookselling whilst continuing to develop a range of non-book merchandise, introducing Waterstones' 'Cafe W' in an initial 12 shops (as at 27 April 2013) and launching an in-store Kindle digital offer. This transformation is supported by substantial and on-going capital investment (£29.5m in the period), focused on reinvigorating the shops, such that they are places where people who are interested in books can go to browse, that encourage new readers to expand horizons and that are home to booksellers who are passionate about the books that they sell. This investment has been partly funded by working capital efficiency, with inventory levels reduced by £13.1m on the prior period end, whilst margin and operating costs have been efficiently managed across the business.

As a result of this, the operating loss before exceptional items was £12.5m, an improvement from a loss of £14.9m in the prior 45 week period. Operating exceptional costs totalled £5.6m (2012: £3.3m), including £2.2m of store closure costs, £2.0m impairment of property, plant and equipment and £1.4m of organisational restructuring.

The loss after taxation amounted to £26.0m (2012: loss of £9.0m). No dividend was paid during the period and the Directors recommend that no final dividend be declared with the loss being transferred to reserves.

During the period under review, eight stores were closed, resulting in a total estate of 283 stores at 27 April 2013.

Principal risks and uncertainties

The principal risks relevant to the Group are identified as, (i) the competitive nature of its markets, (ii) the growth of new methods of digital delivery, (iii) the general sensitivity to changes in economic conditions, (iv) the seasonality of the business, (v) agreements with key suppliers, (vi) damage to reputation or brands, (vii) the maintenance and development of information technology systems, and (viii) attracting, motivating and retaining key staff.

DIRECTORS' REPORT (CONTINUED)**Directors**

The names of the Directors who served throughout the period under review and up to and including the date of this Report and the changes of directorships since the year end are shown on page 1

Employee policies

Waterstones 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 difficult competitive market pressures that Waterstones trades in. Decentralised employee policies support a flexible local service, improving response times and maximising the use of available resources, whilst minimising costs.

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

Policy on payment of creditors

During the period under review, the Group did not impose standard payment terms on its suppliers but agreed specific terms with each and ensured that each supplier was made aware of such terms. It was the Group's policy to pay its suppliers in accordance with the terms that they had agreed. The Group had 67 (2012: 74) days' purchases outstanding as payable at 27 April 2013. The Company is a holding company and therefore has no trade creditors.

Charitable donations

The Group made charitable donations of £69,000 (2012: £77,000) in the period under review. During the period under review it was Group policy not to make donations to political parties and, therefore, no political donations were made.

Auditors

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

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

A statement of the Directors' responsibility for the financial statements can be found on page 5, which is deemed to be incorporated by reference in (and shall be deemed to form part of) this report.

Ernst & Young LLP have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed in the absence of an AGM.

DIRECTORS' REPORT (CONTINUED)

Going concern

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

By order of the Board



M T Miles

Secretary

17 October 2013

STATEMENT OF DIRECTORS' RESPONSIBILITY

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

The Directors are responsible for preparing the financial statements in accordance with applicable English law and those International Financial Reporting Standards as adopted by the European Union (IFRS)

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

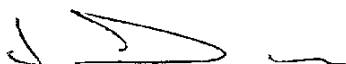
- (i) select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Estimates and then apply them consistently,
- (ii) present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- (iii) provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance,
- (iv) state that the Company and the Group have complied with IFRS, subject to any material departures disclosed and explained in the financial statements, and
- (v) make judgements and estimates that are reasonable and prudent.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time, the financial position of the Company and of the Group 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

We confirm that, to the best of our knowledge

- (i) the financial statements, prepared in accordance with IFRS, present fairly the assets, liabilities, financial position and profit of the Group taken as a whole, and
- (ii) the Directors' Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that the Group may face

By order of the Board



A J Daunt
Director

17 October 2013



R C A Hingley
Director

17 October 2013

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WATERSTONES HOLDINGS LIMITED

We have audited the financial statements of Waterstones Holdings Limited for the 52 weeks ended 27 April 2013 which comprise the Consolidated Income Statement, the Statement of Comprehensive Income, the Balance Sheets, the Statement of Changes in Equity, the Cash Flow Statements and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- ▶ the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 27 April 2013 and of the group's loss for the 52 weeks then ended,
- ▶ the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- ▶ the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- ▶ the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

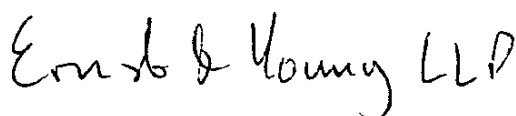
Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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



*John Flaherty (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham
24 October 2013*

CONSOLIDATED INCOME STATEMENT

For the 52 weeks ended 27 April 2013 and the 45 weeks ended 28 April 2012

		Before exceptional items 2013 £000	Exceptional items 2013 £000	Total 2013 £000
	Notes			
Revenue	3	413,950	-	413,950
Cost of sales		(400,354)	(4,255)	(404,609)
Gross profit		13,596	(4,255)	9,341
Administrative expenses		(26,139)	(1,384)	(27,523)
Operating loss	4	(12,543)	(5,639)	(18,182)
Finance income	9	765	-	765
Finance costs	10	(8,365)	-	(8,365)
Loss before taxation		(20,143)	(5,639)	(25,782)
Taxation	11	(229)	11	(218)
Loss for the period		(20,372)	(5,628)	(26,000)

		Before exceptional items 2012 £000	Exceptional items 2012 £000	Total 2012 £000
	Notes			
Revenue	3	372,033	-	372,033
Cost of sales		(364,576)	(3,046)	(367,622)
Gross profit		7,457	(3,046)	4,411
Administrative expenses		(22,307)	(273)	(22,580)
Operating loss	4	(14,850)	(3,319)	(18,169)
Gain on bargain purchase		-	12,810	12,810
Finance income	9	287	-	287
Finance costs	10	(3,654)	-	(3,654)
Loss before taxation		(18,217)	9,491	(8,726)
Taxation	11	(735)	457	(278)
Loss for the period		(18,952)	9,948	(9,004)

See Accounting Policies on pages 12 to 17 for the description of the 2013 and 2012 reporting period

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

All results relate to continuing activities, which were acquired in the prior period

STATEMENT OF COMPREHENSIVE INCOME**For the 52 weeks ended 27 April 2013 and the 45 weeks ended 28 April 2012**

		Group 2013	Group 2012
	Notes	£000	£000
Loss for the period attributable to the shareholders of the Company		(26,000)	(9,004)
Actuarial loss on defined benefit pension scheme	25	(1,661)	(298)
Foreign exchange difference on retranslation of foreign operations		101	(391)
Other comprehensive loss for the period		(1,560)	(689)
Tax on items recognised directly in equity	11	324	39
Total comprehensive loss for the period attributable to the shareholders of the Company		(27,236)	(9,654)

WATERSTONES HOLDINGS LIMITED

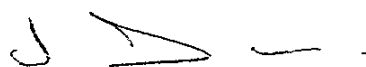
REPORT AND ACCOUNTS 2013

Company Number 07673642

BALANCE SHEETS

		Group as at 27 April 2013 £000	Group as at 28 April 2012 £000	Company as at 27 April 2013 £000	Company as at 28 April 2012 £000
	Notes				
Assets					
Non-current assets					
Investment in subsidiaries	13	-	-	-	-
Property, plant and equipment	12	64,525	52,203	-	-
Deferred income tax asset	11	326	51	-	-
Retirement benefit asset	25	-	15	-	-
		64,851	52,269	-	-
Current assets					
Inventories	15	67,131	80,246	-	-
Trade and other receivables	14	46,693	47,859	93,029	63,674
Current income tax receivable		27	52	-	-
Cash and short-term deposits	16	27,121	20,687	381	239
		140,972	148,844	93,410	63,913
Total assets		205,823	201,113	93,410	63,913
Liabilities					
Non-current liabilities					
Retirement benefit liabilities	25	(1,752)	-	-	-
Deferred income tax liability	11	(321)	(326)	-	-
Interest bearing loans and borrowings	18	(2,112)	(2,720)	-	-
Provisions	19	(1,642)	(2,661)	-	-
		(5,827)	(5,707)	-	-
Current liabilities					
Current income tax payable		(51)	-	-	-
Trade and other payables	17	(183,089)	(189,346)	(74,243)	(78,341)
Interest bearing loans and borrowings	18	(38,052)	(702)	(37,444)	-
Provisions	19	(3,018)	(2,336)	-	-
		(224,210)	(192,384)	(111,687)	(78,341)
Total liabilities		(230,037)	(198,091)	(111,687)	(78,341)
Net (liabilities) assets		(24,214)	3,022	(18,277)	(14,428)
Equity					
Share capital	23	12,676	12,676	12,676	12,676
Foreign currency translation reserve		(290)	(391)	-	-
Accumulated losses		(36,600)	(9,263)	(30,953)	(27,104)
Total equity		(24,214)	3,022	(18,277)	(14,428)

The financial statements were approved by the Board of Directors on 17 October 2013 and were signed on its behalf by



A J Daunt
Director



R C A Hingley
Director

STATEMENTS OF CHANGES IN EQUITY

For the 52 weeks ended 27 April 2013 and the 45 weeks ended 28 April 2012

Group

	Notes	Share capital £000	Foreign currency translation reserve £000	Accum- ulated losses £000	Total £000
Loss for the period		-	-	(9,004)	(9,004)
Other comprehensive income		-	(391)	(259)	(650)
Total comprehensive loss		-	(391)	(9,263)	(9,654)
Issue of share capital		12,676	-	-	12,676
At 28 April 2012		12,676	(391)	(9,263)	3,022
Loss for the period		-	-	(26,000)	(26,000)
Other comprehensive income		-	101	(1,337)	(1,236)
Total comprehensive loss		-	101	(27,337)	(27,236)
At 27 April 2013		12,676	(290)	(36,600)	(24,214)

Company

	Notes	Share capital £000	Foreign currency translation reserve £000	Accum- ulated losses £000	Total £000
Loss for the period		-	-	(27,104)	(27,104)
Other comprehensive income		-	-	-	-
Total comprehensive loss		-	-	(27,104)	(27,104)
Issue of share capital		12,676	-	-	12,676
At 28 April 2012		12,676	-	(27,104)	(14,428)
Loss for the period		-	-	(3,849)	(3,849)
Other comprehensive income		-	-	-	-
Total comprehensive loss		-	-	(3,849)	(3,849)
At 27 April 2013		12,676	-	(30,953)	(18,277)

CASH FLOW STATEMENTS

For the 52 weeks ended 27 April 2013 and the 45 weeks ended 28 April 2012

		Group 2013	Group 2012	Company 2013	Company 2012
	Notes	£000	£000	£000	£000
Cash flows from operating activities					
Loss before tax		(25,782)	(8,726)	(3,849)	(27,104)
Net finance costs		7,600	3,367	2,516	617
Gain on bargain purchase		-	(12,810)	-	-
Operating loss		(18,182)	(18,169)	(1,333)	(26,487)
Depreciation	12	14,536	11,476	-	-
Impairment charges	4	1,998	1,052	-	24,131
Loss on disposal of property, plant and equipment		590	518	-	-
Foreign exchange gains and losses		851	-	852	-
Pension contributions less income statement charge		(8)	4	-	-
		(215)	(5,119)	(481)	(2,356)
Movement in inventories		13,115	4,904	-	-
Movement in trade and other receivables		1,543	(6,219)	(24,278)	(60,839)
Movement in trade and other payables		(10,770)	77,584	(8,235)	74,889
Movement in provisions		(348)	(2,593)	-	-
Cash generated from operations		3,325	68,557	(32,994)	11,694
Income tax paid		(98)	(57)	-	-
Net cash flows from operating activities		3,227	68,500	(32,994)	11,694
Cash flows from investing activities					
Purchase of property, plant and equipment		(29,441)	(6,176)	-	-
Proceeds from sale of property, plant and equipment		-	9	-	-
Cash outflow from investment in subsidiaries		-	(58,658)	-	(24,131)
Cash acquired with subsidiary		-	5,181	-	-
Interest received		259	85	141	-
Net cash flows from investing activities		(29,182)	(59,559)	141	(24,131)
Cash flows from financing activities					
Proceeds from issue of share capital		-	12,676	-	12,676
Interest paid		(2,425)	(15)	(2,365)	-
Repayment of capital element of finance leases		(702)	(610)	-	-
New bank loans raised		35,149	-	35,149	-
Costs of raising finance		(702)	-	(702)	-
Net cash flows from financing activities		31,320	12,051	32,082	12,676
Net increase in cash and cash equivalents		5,365	20,992	(771)	239
Opening cash and cash equivalents	16	20,687	-	239	-
Effect of exchange rate changes		1,069	(305)	913	-
Closing cash and cash equivalents	16	27,121	20,687	381	239

NOTES TO THE FINANCIAL STATEMENTS**1 Corporate information**

The consolidated financial statements of the Group for the period ended 27 April 2013 were authorised for issue by the Board on 17 October 2013. The Company is a limited company incorporated and domiciled in England and Wales.

2. Accounting policies**Basis of preparation**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU as they apply to the financial statements of the group for the 52 weeks ended 27 April 2013 and in accordance with the provisions of the Companies Act 2006.

The consolidated financial statements have been prepared on a historical cost basis, except for fixed assets and inventories that have been measured at fair value. The consolidated financial statements are prepared in pounds sterling and all values are rounded to the nearest thousand (£000) except when otherwise indicated.

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 27 April 2013.

Subsidiaries are fully consolidated from the date of acquisition, being the date the Group obtains control and continue to be consolidated until the date when such control ceases. The financial statements of subsidiaries are prepared for the same reporting period as the parent company using consistent accounting policies. The financial statements for companies in the Waterstones group 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 27 April 2013 whilst the comparative period covered the 45 weeks from the Company's formation to 28 April 2012. The financial statements are prepared in accordance with applicable accounting standards and specifically in accordance with the accounting policies set out below.

All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date, at fair value. Acquisition costs incurred are taken to the income statement and included in administration expenses.

When the group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. Assets and liabilities are recorded at fair value in accordance with IFRS 3 revised.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for the non-controlling interest over the net identifiable amounts of the assets acquired and liabilities assumed in exchange for the business combination. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit and loss for the period.

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

The Group's consolidated financial statements are presented in pounds sterling, which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions and balances are initially recorded by Group entities 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 retranslated at the functional currency spot rate at the reporting date.

All differences arising on settlement or retranslation of monetary items are taken to the income statement with the exception of monetary items that are designated as part of a hedge of the Group's net investment of a foreign operation. These are recognised in comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the income statement. Tax charges and credits attributable to exchange rate differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated at exchange rates as 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 retranslation of non-monetary items is treated in line with the recognition of the gain or loss on 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 is also recognised in other comprehensive income or profit or loss, respectively).

Group companies

On consolidation the assets and liabilities of foreign operations are translated to pounds sterling at the rate of exchange prevailing at the reporting date and their income statements are translated at the average exchange rates prevailing for the period. Differences on translation are recognised in other comprehensive income in a separate equity reserve. On disposal of an overseas company or business, the cumulative exchange differences for that entity are recognised in the income statement as part of the profit or loss on disposal.

Revenue

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

Interest income is accrued on a time basis, by reference to the principal outstanding and the applicable effective interest rate.

Dividend income is recognised when the right to receive payment is established.

Rental income from sub-let properties is recognised on a straight line basis over the period of the sublease.

Taxation*Current tax*

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

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

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

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

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

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

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws substantively enacted by the balance sheet date.

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

Deferred tax assets and deferred tax liabilities are offset if there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or impairment losses, if any.

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

The annual rates used are

Plant, equipment and vehicles	10 to 33 $\frac{1}{3}$ %
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The carrying values of property, plant and equipment are reviewed for material impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

Leased assets

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

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

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

Impairment of assets

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

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

Cash and cash equivalents

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

Provisions

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects the risks specific to the liability.

Pension costs

The Group operates a number of pension schemes, the funds of which are held in separate, trustee administered funds.

The cost of providing benefits under the defined benefit scheme is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. The net retirement benefit obligation recognised in the balance sheet represents the present value of the liabilities of the defined benefit scheme as reduced by the market value of the defined benefit scheme assets.

Actuarial gains and losses are recognised in other comprehensive income in full in the period in which they occur. Other income and expenses associated with the defined benefit scheme are recognised in the income statement.

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

Derivative financial instruments

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**2. Accounting policies (continued)****Interest bearing loans and borrowings**

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

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 rate. The effective interest rate amortisation is included in finance costs in the income statement

Exceptional items

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

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 year. 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 year are as follows

Impairment of assets – Property, plant and equipment and investments are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. When a review for impairment is conducted, the recoverable amount of an asset or a cash generating unit is determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates

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

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

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

New accounting standards

The Group has adopted the following amended accounting standard which was mandatory for the first time for the financial period ending 27 April 2013. It has no material impact on the Group

- IAS 12 Income Taxes (amended December 2010)

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

The Group 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

- IAS 1 Presentation of Financial Statements (amended June 2011 and May 2012)
- IAS 16 Property, Plant and Equipment (amended May 2012)
- IAS 19 Employee Benefits (amended June 2011)
- IAS 32 Financial Statements Presentation (amended December 2011 and May 2012)
- IFRS 7 Financial Instruments Disclosures (amended December 2011)
- IFRS 9 Financial Instruments (amended October 2010 and December 2011)
- IFRS 10 Consolidated Financial Statements (original issue and as amended June 2012 and October 2012)
- IFRS 12 Disclosure of Interests in Other Entities (original issue and as amended June 2012 and October 2012)
- IFRS 13 Fair Value Measurement (original issue)

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

As the Group prepares its financial statements in accordance with IFRS as adopted by the European Union, the application of new standards and interpretations will be subject to their having been endorsed for use in the EU via the EU endorsement mechanism

3. Revenue

Revenue disclosed in the consolidated income statement is analysed as follows

	2013	2012
	£000	£000
Sale of goods	413,950	372,033

4. Operating loss

Operating loss is stated after charging (crediting)

	2013	2012
	£000	£000
Depreciation of property, plant and equipment	14,536	11,476
Impairment charges	1,998	1,052
Loss on disposal of property, plant and equipment	590	518
Cost of inventories recognised as expense	216,203	178,877
Write down of inventories	2,691	966
Operating lease rentals		
Minimum rentals	55,369	47,454
Percentage rentals	35	76
Sublease rental income	(863)	(786)
Net operating lease rentals	54,541	46,744

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**5. Fees to auditors**

	2013	2012
	£000	£000
Audit of the Group financial statements	15	30
Audit of the subsidiary financial statements	85	85

The audit fees disclosed above represent the statutory audit fees for all group companies

Fees to auditors for non-audit services were £5,000 (2012 £3,000)

6. Exceptional items

	2013	2012
	£000	£000
Charged in arriving at operating loss		
Impairment of property, plant and equipment	(1,998)	(987)
Restructuring costs	(1,384)	(273)
Store closure costs	(2,257)	(603)
Inventory provisions	-	(1,456)
	(5,639)	(3,319)
Credited in arriving at loss before tax		
Gain on bargain purchase	-	12,810
	(5,639)	9,491

Included within Cost of sales -

Exceptional store closure costs of £2,257,000 (2012 £603,000) including fixed asset write-offs, redundancy costs incurred, strip-out costs, stock obsolescence and provisions for future property costs

Impairment charges for property, plant and equipment of £1,998,000 (2012 £987,000) following a review of the carrying value based on prevailing market conditions

Stock provisions of £nil (2012 £1,456,000)

Included within Administrative expenses -

Exceptional costs of £1,384,000 (2012 £273,000) relating to organisational restructuring and related redundancy costs.

A tax credit of £11,000 (2012 £457,000) arose in respect of these costs

7. Directors' emoluments

	2013	2012
	£000	£000
Salaries and fees	228	159
Other benefits	225	141
Total	453	300

Certain Directors of the Company are remunerated by other companies in the wider A&NN Capital group. The relevant Directors consider that the limited proportion of time spent on the Group's business does not warrant a recharge of director's remuneration, and therefore no remuneration is included above.

Other benefits reflect an entitlement to the future award of ordinary shares in, and loan notes from, the Company. The calculation of the actual award includes the impact of post balance sheet events and therefore cannot be fully assessed at the balance sheet date.

None (2012 none) of the Directors are accruing benefits under the Group's pension arrangements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**7. Directors' emoluments (continued)**

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

	2013	2012
	£000	£000
Fees	50	33
Other benefits	150	100
Total	200	133

8. Employee costs

	2013	2012
	£000	£000
Employee costs, including Directors' emoluments		
Wages and salaries	57,489	52,470
Social security costs	4,545	4,518
Other pension costs (see Note 25)	1,575	1,009
	63,609	57,997

The average number of people employed by the Group during the period was 4,100 (2012 4,646)

9. Finance income

	2013	2012
	£000	£000
Defined benefit pension scheme interest income	129	194
Interest receivable from parent company	377	9
Bank interest receivable	251	84
Other interest receivable	8	-
Total finance income	765	287

10. Finance costs

	2013	2012
	£000	£000
Defined benefit pension scheme interest expense	193	153
Lease interest payable	49	41
Interest payable to parent company	4,419	3,460
Bank interest payable	3,693	-
Other interest payable	11	-
Total finance costs	8,365	3,654

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**11. Taxation**

Taxation recognised in the income statement:

	2013	2012
	£000	£000
Overseas tax, current year	282	177
Overseas tax, prior period	(52)	(47)
Total current tax	230	130
Deferred tax, current year	-	148
Deferred tax, prior period	(12)	-
Total taxation charge in the income statement	218	278

The tax charge in the current year includes a credit of £11,000 (2012 credit of £457,000) in relation to the exceptional operating costs of £5,639,000 (2012 £3,319,000) details of which can be found in Note 6

Tax relating to items credited directly to equity is as follows

	2013	2012
	£000	£000
Current tax relating to defined benefit pension scheme	56	-
Deferred tax relating to defined benefit pension scheme	268	39
Total taxation credit in the statement of comprehensive income	324	39

The standard rate of UK Corporation tax was reduced to 24% from 1 April 2012 and 23% from 1 April 2013
Current tax has therefore been provided at 23.9% and deferred tax at 23%

Further reductions to the main rate of corporation tax are proposed to reduce the rate to 21% from 1 April 2014 and to 20% from 1 April 2015. As this legislation was not substantively enacted by the balance sheet date it has not been reflected in these financial statements.

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

	2013	2012
	£000	£000
Loss before taxation	(25,782)	(8,726)
Corporation tax at UK average statutory rate of 23.9% (2012 25.9%)	(6,162)	(2,261)
Effects of:		
Permanent disallowables	2,529	(1,869)
Unrecognised temporary differences	3,563	2,009
Adjustments in relation to prior periods	(64)	(47)
Unrecognised tax losses	378	2,534
Tax rate differences	(26)	(88)
Total tax charge	218	278

Deferred tax

The standard rate of UK Corporation tax was reduced to 23% from 1 April 2013. Deferred tax has therefore been provided at 23% (2012 24%)

Further reductions to the main rate of corporation tax are proposed to reduce the rate to 21% from 1 April 2014 and to 20% from 1 April 2015. As this legislation was not substantively enacted by the balance sheet date it has not been reflected in these financial statements

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**11 Taxation (continued)****Deferred tax (continued)****Group***Provided deferred tax*

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

	2013	2012
	£000	£000
Deferred tax liability		
Holdover of capital gains	(321)	(326)
Deferred tax asset		
Accelerated depreciation for tax purposes	12	30
Other temporary differences relating to defined benefit pension scheme	314	18
Other temporary differences	-	3
Total deferred tax asset	326	51
Deferred tax net liability	5	(275)

Unprovided deferred tax

There are no unprovided deferred tax liabilities

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

	2013	2012
	£000	£000
Accelerated capital allowances	12,069	10,191
Tax losses	5,342	4,229
Other temporary differences	14	16
	17,425	14,436

The deferred tax assets have not been recognised since there is no persuasive evidence that there will be suitable taxable profits against which the timing differences will reverse. It is likely that the assets will be recoverable once suitable taxable profits are generated.

A reduction to the standard rate of UK corporation tax from 23% to 21% would reduce the deferred tax asset not recognised by £1,515,000. A reduction in the rate to 20% would reduce the deferred tax asset not recognised by a further £757,000.

Company*Provided deferred tax*

There are no provided deferred tax assets or liabilities

Unprovided deferred tax

There are no unprovided deferred tax liabilities

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

	2013	2012
	£000	£000
Tax losses	510	32
	510	32

The deferred tax assets have not been recognised since there is no persuasive evidence that there will be suitable taxable profits against which the timing differences will reverse. It is likely that the assets will be recoverable once suitable taxable profits are generated.

A reduction to the standard rate of UK corporation tax from 23% to 21% would reduce the deferred tax asset not recognised by £44,000. A reduction in the rate to 20% would reduce the deferred tax asset not recognised by a further £23,000.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**12. Property, plant and equipment****Group**

	Plant, equipment and vehicles
	£000
Acquisition of subsidiaries at 28 June 2011	59,139
Disposals	(2,848)
Additions	6,176
Exchange differences	(514)
Cost at 28 April 2012	61,953
Disposals	(607)
Additions	29,441
Exchange differences	119
Cost at 27 April 2013	90,906
Charge for period	11,476
Impairment loss	1,052
Disposals	(2,321)
Exchange differences	(457)
Depreciation at 28 April 2012	9,750
Charge for period	14,536
Disposals	(17)
Impairment loss	1,998
Exchange differences	114
Depreciation at 27 April 2013	26,381
Net book value at 27 April 2013	64,525
Net book value at 28 April 2012	52,203

Property, plant and equipment has been written down by £1,998,000 following an impairment review of the carrying value of certain retail assets based on prevailing market trading conditions. The recoverable amounts of assets were determined from value in use calculations that incorporated eight-year cash flow estimates discounted at an appropriate pre-tax discount rate of 10%. The cash flows reflected management's best estimates of revenue, margin and operating costs over the forecast period and no reasonably possible change in assumptions would result in further impairment.

The carrying value of plant and equipment held under finance leases at 27 April 2013 was £4,442,000 (2012 £5,150,000) of which £nil (2012 £nil) is included within additions during the period. Leased assets are pledged as security for the related finance leases.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**13. Investments: subsidiaries****Company**

	£000
Cost at 27 April 2013 and 28 April 2012 (arising on acquisition at 28 June 2011)	24,131
Impairment charge	(24,131)
Provision at 27 April 2013 and 28 April 2012	(24,131)
Net book value at 27 April 2013 and 28 April 2012	-

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

Name of undertaking	Country of incorporation	Status
Waterstones Booksellers Limited	England & Wales	Trading
Waterstones Booksellers Ireland Limited	Ireland	Trading
Waterstones Booksellers Belgium SA	Belgium	Trading
Waterstones Booksellers Amsterdam BV	Holland	Trading

The carrying value of the investment in subsidiaries was fully written in the prior period following an impairment review based on the trading performance of the businesses since acquisition and the prevailing market conditions. The recoverable amounts of assets reflected value in use calculations that incorporated cash flow forecasts discounted at an appropriate pre-tax discount rate of 10%. The cash flows reflected management's best estimates of revenue, margin and operating costs over the forecast period.

14. Trade and other receivables

	Group 2013 £000	Group 2012 £000	Company 2013 £000	Company 2012 £000
Current:				
Trade receivables	1,586	4,538	-	-
Amounts owed by parent undertaking	5,961	1,486	-	-
Amounts owed by subsidiary undertakings	-	-	93,029	63,674
Other receivables	5,755	10,671	-	-
Prepayments and accrued income	33,391	31,164	-	-
	46,693	47,859	93,029	63,674

Group

The carrying value of trade and other receivables approximates to fair value. Trade receivables are stated net of a provision for impairment of £18,000 (2012 £49,000). Trade and other receivables are non-interest bearing and are generally on 30 day terms. The amounts owed by parent undertaking are repayable on demand, and interest is charged at the higher of 7% per annum or the base rate of Barclays Bank plc at date of advance plus 4%. Credit risk is limited as the Group has minimal levels of trade receivables due to the nature of its retailing business. See Note 21 for a discussion of credit risk.

Company

Amounts owed by subsidiary undertakings comprise an interest bearing loan of £32,370,000 (2012 £32,339,260) and a revolving credit facility up to a maximum principal amount of £65,000,000 (2012 £65,000,000), plus accrued interest. All amounts are repayable on demand and carry interest at the higher of 7% per annum or the base rate of Barclays Bank plc on date of advance plus 4%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**15. 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.

16. Cash and short-term deposits

	Group 2013 £000	Group 2012 £000	Company 2013 £000	Company 2012 £000
Cash at bank and in hand	27,121	20,687	381	239

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

17. Trade and other payables

	Group 2013 £000	Group 2012 £000	Company 2013 £000	Company 2012 £000
Current:				
Trade payables	36,974	41,926	-	-
Amounts owed to parent undertaking	77,930	77,811	71,969	76,325
Other payables	42,687	39,966	-	-
Accruals and deferred income	25,498	29,643	2,274	2,016
	183,089	189,346	74,243	78,341

The carrying value of trade and other payables approximates to fair value. Trade payables are not interest-bearing and are generally settled on 30-60 day terms. Other payables and accruals are not interest-bearing. The amounts owed to parent undertaking are repayable on demand, and interest is charged at the higher of 7% per annum or the base rate of Barclays Bank plc at date of advance plus 4%.

18. Interest bearing loans and borrowings

	Group 2013 £000	Group 2012 £000	Company 2013 £000	Company 2012 £000
Non-current				
Obligations under finance leases (see Note 26)	2,112	2,720	-	-
	2,112	2,720	-	-
Current:				
Obligations under finance leases (see Note 26)	608	702	-	-
Bank loan	37,444	-	37,444	-
	38,052	702	37,444	-

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

Interest is payable on the bank loan at LIBOR plus 7.25%. This facility has a current expiry of 31 October 2013 subject to further extension or replacement. The security for this loan facility includes a debenture on certain assets of the Group, including the Waterstones brand.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**19. Provisions**

	Group 2013 £000	Company 2013 £000
At 28 April 2012	4,997	-
Provisions created in the period	2,080	-
Provisions utilised	(2,428)	-
Exchange differences	11	-
At 27 April 2013	4,660	-
Analysed as		
Current	3,018	-
Non-current	1,642	-
	4,660	-

Provisions almost entirely consist of amounts in respect of store closures and restructuring. The utilisation of provisions in the year and the provisions created in the year largely reflects store closures. Of the total provisions £475,000 is expected to be utilised after 5 years from the balance sheet date.

20. Derivative financial instruments**Currency derivatives**

The Group can use derivative instruments as part of a policy of managing foreign currency exchange risk arising on expected future purchases of internationally sourced products. The implementation of these derivative instruments is negotiated to match expected purchases and they therefore qualify for hedge accounting. The fair value of cash flow hedges in place at 27 April 2013 is £nil (2012: £nil).

The total notional amount of outstanding foreign currency contracts to which the Company was committed at 27 April 2013 was £nil (2012: £nil).

21. Financial risk factors

The Group's business exposes it to certain limited financial risks such as liquidity risk, interest rate risk, credit risk and foreign exchange risk.

Liquidity risk

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

The Group has access to funding facilities under loan agreements with its European parent undertaking that were put in place on formation. These funding facilities comprise an interest bearing loan of £32,370,000 and a revolving credit facility up to a maximum principal amount of £65,000,000, plus accrued interest.

In addition the Company has a \$57m bank loan facility, which has a current expiry of 31 October 2013 subject to further extension or replacement. The security for this loan facility includes a debenture on certain assets of the Group, including the Waterstones brand.

Analysis of the maturity profile of financial liabilities at 27 April 2013 and 28 April 2012 are shown below.

Group						Total £000
	On demand £000	Less than 3 months £000	3 to 12 months £000	1 to 5 years £000	More than 5 years £000	
Finance leases	-	160	478	2,240	-	2,878
Bank loan	-	37,444	-	-	-	37,444
Trade and other payables	77,930	105,159	-	-	-	183,089
At 27 April 2013	77,930	142,763	478	2,240	-	223,411

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**21. Financial risk factors (continued)**

	On demand £000	Less than 3 months £000	3 to 12 months £000	1 to 5 years £000	More than 5 years £000	Total £000
Finance leases	-	185	569	2,360	562	3,676
Trade and other payables	77,811	111,535	-	-	-	189,346
At 28 April 2012	77,811	111,720	569	2,360	562	193,022

Company	On demand £000	Less than 3 months £000	3 to 12 months £000	1 to 5 years £000	More than 5 years £000	Total £000
Bank loans	-	37,444	-	-	-	37,444
Trade and other payables	74,242	-	-	-	-	74,242
At 27 April 2013	74,242	37,444	-	-	-	111,686

	On demand £000	Less than 3 months £000	3 to 12 months £000	1 to 5 years £000	More than 5 years £000	Total £000
Trade and other payables	78,341	-	-	-	-	78,341
At 28 April 2012	78,341	-	-	-	-	78,341

Interest rate risk

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

Credit risk

The Group's credit risk arises from its cash and outstanding receivables. The Group manages excess cash balances by repaying drawings under the revolving credit facility.

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

Foreign exchange risk

The Group is exposed to foreign exchange risk from its investing, 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 date (see Note 20).

The Group is also exposed to foreign currency translation risk through its borrowings in foreign currency and investment in overseas subsidiaries. Generally, the Group does not hedge any net translation exposure although it may in certain circumstances implement hedges to secure short term financial objectives.

Sensitivity analysis

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

Interest rate sensitivity

Based on the Group's net interest bearing assets and liabilities position at the year end, a 100 basis points movement in interest rates would affect the Group's profit before tax and shareholders' equity by approximately £0.8m (2012: £0.2m).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**21. Financial risk factors (continued)***Foreign exchange rate sensitivity*

A 10% change in the value of currencies against sterling would affect the Group's profit by approximately £3.6m (2012 £0.7m). The Group has no cash flow hedges in place, as detailed in Note 20.

Capital management

During the year under review, the core objective of the Group 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 undertaking and other stakeholders. The capital structure of the Group comprises loans and borrowings through its intra-group facilities and from external sources, cash and cash equivalents (see Note 16) and equity attributable to the parent undertaking (see Note 23).

22. Additional cash flow information

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

Group				
	At 28 April 2012 £000	Cash flow £000	Other non- cash changes £000	At 27 April 2013 £000
Cash at bank and in hand	20,687	5,365	1,069	27,121
Loans and borrowings – non-current	(2,720)	-	608	(2,112)
Loans and borrowings – current	(702)	(33,745)	(3,605)	(38,052)
Total loans and borrowings	(3,422)	(33,745)	(2,997)	(40,164)
Net debt	17,265	(28,380)	(1,928)	(13,043)
	At beginning of period or acquired £000	Cash flow £000	Other non- cash changes £000	At 28 April 2012 £000
Cash at bank and in hand	-	20,992	(305)	20,687
Loans and borrowings – non-current	(3,299)	-	579	(2,720)
Loans and borrowings – current	(707)	584	(579)	(702)
Total loans and borrowings	(4,006)	584	-	(3,422)
Net debt	(4,006)	21,576	(305)	17,265
Other non-cash changes represent movements in finance lease funding, foreign exchange movements and interest accrued but not yet paid				
Company				
	At 28 April 2012 £000	Cash flow £000	Other non- cash changes £000	At 27 April 2013 £000
Cash at bank and in hand	239	(771)	913	381
Loans and borrowings – current	-	(34,447)	(2,997)	(37,444)
Total loans and borrowings	-	(34,447)	(2,997)	(37,444)
Net debt	239	(35,218)	(2,084)	(37,063)
	At beginning of period £000	Cash flow £000	Other non-cash changes £000	28 April 2012 £000
Cash at bank and in hand	-	239	-	239
Total loans and borrowings	-	-	-	-
Net debt	-	239	-	239

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**22. Additional cash flow information (continued)**

Other non-cash changes represent movements in finance lease funding, foreign exchange movements and interest accrued but not yet paid

23. Share capital

	2013 Number	2013 £000	2012 Number	2012 £000
Authorised	Unlimited	Unlimited	Unlimited	Unlimited
Allotted, called up and fully paid				
Ordinary Shares of £1 each	12,675,501	12,676	12,675,501	12,676

24. Contingent liabilities

The management of Waterstones Holdings Limited is not aware of any legal or arbitration proceedings pending or threatened against the Group which may result in any liabilities significantly in excess of provisions in the financial statements

25 Pension arrangements

The Group operates a number of pension schemes, the funds of which are held in separate, trustee administered funds. With the exception of a small defined benefit scheme in Ireland, all schemes are defined contribution schemes. Details of the main schemes are given below.

UK pension saver plan ("the Plan")

The Waterstones Group Personal Pension Plan (WGPPP), a defined contribution scheme, 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. Members can choose to pay from 2% to 6.5% of pensionable salary, with the members' contributions matched by Waterstones to a maximum of 6.5%.

Ireland defined benefit scheme ("the Scheme")

The Scheme, which is operated by Waterstones Booksellers Ireland Limited and is of the defined benefit type, is closed to new members. The assets of the Scheme are held separately from those of the Group. An actuarial valuation took place as at 30 June 2010 and at that date the market value of the assets was sufficient to cover 79% of the value of the liabilities of the Scheme, representing a funding deficit of €1,129,000. This is broadly consistent with a statutory solvency test of the Scheme undertaken by the actuary as at 30 June 2008, which had identified a deficit of €1.2m. This was to be funded by a combination of special payments totaling €2.15m, regular employer contributions of 13% of pensionable salaries and an increase in member contributions from 5.0% to 6.5% from 1 November 2009. On the change of ownership of Waterstones Booksellers Ireland Limited on 28 June 2011 when it was acquired by the Group it was agreed with the Trustees that the remaining unpaid special contributions would be amalgamated into one lump sum payment of €1,350,000. This payment was made by HMV Group plc as a condition of the change of ownership of the Waterstones companies on 28 June 2011. Following the change of ownership, Waterstones Booksellers Ireland Limited agreed with effect from 1 February 2012 to increase the total contribution rate from 19.5% to 23.5% of pensionable salaries made up of an employer rate of 16.0% and an employee rate of 7.5%. The next actuarial review will take place with an effective date no later than 30 June 2013.

Employer contributions to the Scheme for the period to 27 April 2013 were £81,000 (2012 £63,000). The total employer contributions to the Scheme for the financial year commencing on 28 April 2013 are expected to be £93,000.

Amounts reflected in the financial statements in respect of the Scheme are determined with the advice of independent qualified actuaries, Towers Watson (Ireland) Limited, on the basis of annual valuations using the projected unit funding method. Scheme assets are stated at their market value at the respective balance sheet dates.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**25. Pension arrangements (continued)**

For the period ended 28 April 2012, the funding movements below have been apportioned between the pre-acquisition period and the period from acquisition to 28 April 2012, unless they can be specifically identified as pre or post-acquisition. The major assumptions used in the calculations are as follows:

	As at 27 April 2013	As at 28 April 2012
	% per annum	% per annum
Rate of price inflation	2.0	2.0
Rate of salary increase	3.0	3.5
Rate of increase for pensions in payment	2.0	2.0
Rate used to discount scheme liabilities	3.6	5.3
Expected rate of return on equities	n/a	6.4
Expected rate of return on bonds	n/a	3.9
Expected rate of return on index-linked bonds	n/a	n/a
Expected rate of return on other assets	n/a	4.9

The post retirement mortality assumptions used at 27 April 2013 are consistent with those used at 28 April 2012. They reflect the pensioner mortality 00 series table with allowance for improvements of 0.39% per annum between 2008 and year of retirement.

On the basis of the above assumptions, the amounts charged or credited to the income statement and statement of comprehensive income for the period ended 27 April 2013 are set out below:

	2013 £000	2012 £000
Recognised in the income statement	£000	
Current service cost	(73)	(67)
Total recognised in arriving at operating profit	(73)	(67)
Finance charge		
Interest on pension scheme liabilities	(193)	(153)
Expected rate of return on assets in the pension scheme	129	194
Net (charge) credit to other finance income	(64)	41
Total income statement charge before deduction for taxation	(137)	(26)
Taken to the statement of comprehensive income		
Actual return on scheme assets	368	98
Less: expected return on scheme assets	(129)	(194)
	239	(96)
Actuarial gains and losses	(1,900)	(202)
Total loss recognised in the statement of comprehensive income	(1,661)	(298)

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

	As at 27 April 2013	As at 28 April 2012
	£000	£000
Equities	2,168	1,494
Bonds	1,463	859
Other	635	1,318
Total market value of assets	4,266	3,671
Actuarial value of scheme liabilities	(6,018)	(3,656)
(Deficit) surplus in the Scheme	(1,752)	15
Deferred tax	314	18
Net pension (liability) asset	(1,438)	33

The pension plans have not invested in any financial instruments issued by the wider A&NN Group, nor in properties or other assets used by the Group.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**25. Pension arrangements (continued)**

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

	2013 £000	2012 £000
Total market value of assets at the beginning of the period	3,671	3,821
Employer contributions	81	63
Employee contributions	38	29
Benefits paid	-	(22)
Expected return of plan assets	129	194
Actuarial loss	239	(96)
Effect of exchange rates on translation	108	(318)
Total market value of assets at the end of the period	4,266	3,671

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

	2013 £000	2012 £000
Defined benefit pension obligations at the beginning of the period	(3,656)	(3,534)
Current service cost	(73)	(67)
Interest on pension scheme liabilities	(193)	(153)
Employee contributions	(38)	(29)
Benefits paid	-	22
Actuarial loss	(1,900)	(202)
Effect of exchange rates on translation	(158)	307
Defined benefit pension obligations at the end of the period	(6,018)	(3,656)

As the scheme is solely an Irish pension fund arrangement, the following disclosures have been provided in the originating currency

History of experience gains and losses € '000	2013 €000	2012 €000	2011 €000	2010 €000	2009 €000
Fair value of Scheme assets	5,076	4,478	3,479	4,335	2,891
Present value of defined benefit obligation	(7,161)	(4,460)	(5,079)	(4,366)	(3,289)
(Deficit) surplus in the Scheme	(2,085)	18	(1,600)	(31)	(398)
Experience adjustments arising on Scheme assets	293	(134)	(269)	689	(1,449)
(Loss) gain on assumptions	(2,221)	(301)	152	(693)	1,423
Experience adjustments arising on Scheme liabilities	(107)	15	(410)	(22)	54

In the financial statements of Waterstones Booksellers Ireland Limited, the cumulative amount of actuarial gains and losses recognised since 25 April 2004 in the statement of comprehensive income is a cumulative loss of €2,809,000 (2012, loss €774,000). The Directors are unable to determine how much of the Scheme deficit of €790,000, recognised on transition to IFRS and taken directly to equity, is attributable to actuarial gains and losses since inception of the Scheme. Consequently, the Directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the statement of comprehensive income before 25 April 2004.

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

Assumption	Change in assumption	Impact on defined benefit obligation
Discount rate	Increase by 0.25%	Decrease by 6%
Price inflation	Increase by 0.25%	Increase by 6%
Post-retirement mortality	Life expectancy increase by one year	Increase by 3%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**26. Obligations under leases****Group***Obligations under operating leases*

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

	Land and Buildings	Other	Land and Buildings	Other
	2013	2013	2012	2012
	£000	£000	£000	£000
Not later than one year	48,085	136	51,032	175
Between two and five years inclusive	147,094	108	160,114	138
After five years	98,503	-	115,905	-
	293,682	244	327,051	313

The Group has also sublet space in certain properties. The future minimum sublease payments expected to be received under non-cancellable sublease agreements as at 27 April 2013 is £2,330,000 (2012: £3,975,000).

Obligations under finance leases

The Group has acquired certain plant and equipment using finance lease liabilities. These leases have no terms of renewal, purchase options or escalation clauses. At the end of the period, future minimum payments under finance leases were as follows:

	Group 2013	Group 2012
	£000	£000
Not later than one year	638	754
Between two and five years inclusive	2,240	2,360
After five years	-	562
	2,878	3,676
Less: finance charges allocated to future periods	(159)	(254)
Present value of minimum lease payments	2,719	3,422

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

	Group 2013	Group 2012
	£000	£000
Not later than one year	607	702
Between two and five years inclusive	2,112	2,192
After five years	-	528
	2,719	3,422

Company

The Company has no obligations under finance leases or operating leases.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**27. Related party transactions**

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

Group	Net interest accrued	Amounts owed by related party	Amounts owed to related party
	£000	£000	£000
With immediate parent undertaking			
2013	(4,042)	5,961	(77,930)
2012	(3,451)	1,486	(77,811)

The amounts owed by the immediate parent undertaking comprises intercompany loans and accrued interest. These loans are repayable on demand and carry interest at the higher of 7% per annum or the base rate of Barclays Bank plc on date of advance of funds plus 4%.

Company	Net interest accrued	Amounts owed by related party	Amounts owed to related party
	£000	£000	£000
With parent undertaking			
2013	(4,041)	-	(71,969)
2012	(3,451)	-	(76,325)
With fellow subsidiary undertakings			
2013	5,077	93,029	-
2012	2,835	63,674	-

The amounts owed to and from related parties comprise intercompany loans and accrued interest. These loans are repayable on demand and carry interest at the higher of 7% per annum or the base rate of Barclays Bank plc on date of advance of funds plus 4%.

Remuneration of key management personnel

The remuneration of the Directors of the Group is set out in Note 7

28. Ultimate parent undertaking

The immediate parent undertaking and ultimate European parent undertaking of the Group is A&NN Holdings Limited, registered in Cyprus, which is itself a subsidiary of A&NN Capital Management Fund Limited

The largest and smallest group, including the Company, for which consolidated accounts are prepared and are publically available is that headed by the Company