

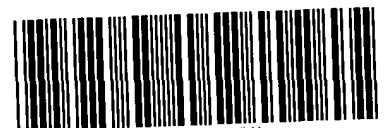
Waterstones Holdings Limited

Consolidated Financial Statements

52 weeks ended 26 April 2014

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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

REGISTERED OFFICE

203-206 Piccadilly
London
W1J 9HD

COMPANY NUMBER

07673642

AUDITORS

Ernst & Young LLP
1 Colmore Square
Birmingham
B4 6HQ

STRATEGIC REPORT**Principal activity**

The Company acts as a holding company.

The Waterstones 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.

Business review

Following its acquisition from HMV Group in June 2011, Waterstones has embarked on a programme of investment and change to secure its future as a quality bookselling business. Significant progress was made in the financial year, supported by a further £20.9m of capital investment (2013: £29.4m) in the shop environment and support infrastructure. This investment, combined with better standards of bookselling within the shops to improve service and the range of books stocked, is once again making Waterstones, for those who love books, a place to visit and spend time in. Our shops are also benefitting from an expanding complementary non-book offer and in many shops, a café, with 19 stores now including Waterstones' own 'Café W'.

With total sales of £389.5m, down 5.9% on the prior year (2013: £414.0m), the key performance indicators of the business are focused on margin management and delivering operational efficiency, to reduce both the cost base and the working capital investment, with progress made in all areas in the financial year. As a result of this, the operating loss before exceptional items was £3.8m, an improvement from a loss of £12.5m in the prior period. Operating exceptional costs totalled £6.9m (2013: £5.6m), including £3.7m of organisational restructuring, £1.8m of store closure costs and £1.4m impairment of property, plant and equipment.

The loss after taxation amounted to £18.6m (2013: loss of £26.0m). 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, nine shops were closed, three shops were resited and two new shops were opened, resulting in a total estate of 276 shops at 26 April 2014 (2013: 283).

Principal risks and uncertainties

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

- (i) the competitive nature of its markets, with particular emphasis on the developing methods of digital delivery of products and content;
- (ii) the general sensitivity to changes in economic conditions;
- (iii) the seasonality of the business, with Christmas performance key to annual profitability;
- (iv) maintaining appropriate commercial agreements with key suppliers;
- (v) the reliability of the Group's and key suppliers' supply chains;
- (vi) a failure to sustain or protect the Group's reputation and brand;
- (vii) the maintenance and development of information technology systems; and
- (viii) attracting, motivating and retaining key staff.

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

By order of the Board



M T Miles
Secretary

Date: 23 October 2014

DIRECTORS' REPORT

The Directors submit their report and audited financial statements for the 52 weeks ended 26 April 2014 which were approved on behalf of the Board on 23 October 2014.

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

No dividend was paid during the period and the Directors recommend that no final dividend be declared (2013: £nil).

Foreign branches

The Group continues to operate a number of overseas stores.

Future developments

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

Financial instruments

The Group's exposure to and management of liquidity risk, interest rate risk, credit risk and foreign exchange risk is set out in note 21.

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 54 (2013: 67) days' purchases outstanding as payable at 26 April 2014. The Company is a holding company and therefore has no trade creditors.

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.

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

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.

Disabled employees

The group 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 Group's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

DIRECTORS' REPORT (CONTINUED)**Donations**

The Group made charitable donations of £61,000 (2013: £69,000) in the period.

During the period under review it was the Group's 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 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.

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 and its ultimate shareholder, 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****Date: 23 October 2014**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Consolidated Financial Statements in accordance with applicable United Kingdom law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law, the directors are required to prepare financial statements under International Financial Reporting Standards as adopted by the European Union (IFRS).

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 Group and the financial performance and the cash flows 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 or loss of the Group taken as a whole, 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 Group, together with a description of the principal risks and uncertainties that the Group may face.

On behalf of the Board


A J Daunt
Director
Date: 23 October 2014


R C A Hingley
Director
Date: 23 October 2014

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

We have audited the consolidated financial statements of Waterstones Holdings Limited for the 52 weeks ended 26 April 2014, which comprise the Consolidated Income Statement, the Statement of Comprehensive Income, the Group and Company Balance Sheets, the Group and Company Statement of Changes in Equity, the Group and Company Cash Flow Statements and the related notes 1 to 28. 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 Auditors

As explained more fully in the Statement of Directors' Responsibilities 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 Consolidated Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 the Parent Company's affairs as at 26 April 2014 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 Strategic Report and 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.

Ernst & Young LLP

Helen McLeod-Jones (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham

Date: *23 October 2014*

CONSOLIDATED INCOME STATEMENT

For the 52 weeks ended 26 April 2014 and the 52 weeks ended 27 April 2013

		Before exceptional items 2014	Exceptional items 2014	Total 2014
	Notes	£000	£000	£000
Revenue	3	389,549	-	389,549
Cost of sales		(373,306)	(6,439)	(379,745)
Gross profit		16,243	(6,439)	9,804
Administrative expenses		(20,051)	(498)	(20,549)
Operating loss	4	(3,808)	(6,937)	(10,745)
Finance income	9	904	-	904
Finance costs	10	(8,996)	-	(8,996)
Loss before taxation		(11,900)	(6,937)	(18,837)
Taxation	11	203	3	206
Loss for the period		(11,697)	(6,934)	(18,631)

		Before exceptional items 2013	Exceptional items 2013	Total 2013
	Notes	£000	£000	£000
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)

See Accounting Policies on pages 13 to 18 for the description of the 2014 and 2013 reporting period.

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

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

STATEMENT OF COMPREHENSIVE INCOME

For the 52 weeks ended 26 April 2014 and the 52 weeks ended 27 April 2013

		Group 2014	Group 2013
	Notes	£000	£000
Loss for the period attributable to the shareholders of the Company		(18,631)	(26,000)
Actuarial loss on defined benefit pension scheme	25	(122)	(1,661)
Foreign exchange difference on retranslation of foreign operations		(82)	101
Other comprehensive loss for the period		(204)	(1,560)
Tax on items recognised directly in equity	11	8	324
Total comprehensive loss for the period attributable to the shareholders of the Company		(18,827)	(27,236)

BALANCE SHEETS

		Group as at 26 April 2014 £000	Group as at 27 April 2013 £000	Company as at 26 April 2014 £000	Company as at 27 April 2013 £000
	Notes				
Assets					
Non-current assets					
Investment in subsidiaries	13	-	-	-	-
Property, plant and equipment	12	69,441	64,525	-	-
Deferred income tax asset	11	315	326	-	-
		69,756	64,851	-	-
Current assets					
Inventories	15	61,340	67,131	-	-
Trade and other receivables	14	46,833	46,693	114,630	93,029
Current income tax receivable		31	27	-	-
Cash and short-term deposits	16	20,893	27,121	1	381
		129,097	140,972	114,631	93,410
Total assets		198,853	205,823	114,631	93,410
Liabilities					
Non-current liabilities					
Trade and other payables	17	(133,126)	-	(133,126)	-
Retirement benefit liabilities	25	(1,768)	(1,752)	-	-
Deferred income tax liability	11	-	(321)	-	-
Interest bearing loans and borrowings	18	(1,584)	(2,112)	-	-
Provisions	19	(963)	(1,642)	-	-
		(137,441)	(5,827)	(133,126)	-
Current liabilities					
Current income tax payable		(12)	(51)	-	-
Trade and other payables	17	(101,653)	(183,089)	(748)	(74,243)
Interest bearing loans and borrowings	18	(528)	(38,052)	-	(37,444)
Provisions	19	(2,260)	(3,018)	-	-
		(104,453)	(224,210)	(748)	(111,687)
Total liabilities		(241,894)	(230,037)	(133,874)	(111,687)
Net liabilities		(43,041)	(24,214)	(19,243)	(18,277)
Equity					
Share capital	23	12,676	12,676	12,676	12,676
Foreign currency translation reserve		(372)	(290)	-	-
Accumulated losses		(55,345)	(36,600)	(31,919)	(30,953)
Total equity		(43,041)	(24,214)	(19,243)	(18,277)

The financial statements were approved by the Board of Directors on 23 October 2014 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 26 April 2014 and the 52 weeks ended 27 April 2013

Group

	Notes	Share capital £000	Foreign currency translation reserve £000	Accumulated losses £000	Total £000
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)
Loss for the period		-	-	(18,631)	(18,631)
Other comprehensive income		-	(82)	(114)	(196)
Total comprehensive loss		-	(82)	(18,745)	(18,827)
At 26 April 2014		12,676	(372)	(55,345)	(43,041)

Company

	Notes	Share capital £000	Foreign currency translation reserve £000	Accumulated losses £000	Total £000
At 28 April 2012		12,676	-	(27,104)	(14,428)
Loss for the period		-	-	(3,849)	(3,849)
Total comprehensive loss		-	-	(3,849)	(3,849)
At 27 April 2013		12,676	-	(30,953)	(18,277)
Loss for the period		-	-	(966)	(966)
Total comprehensive loss		-	-	(966)	(966)
At 26 April 2014		12,676	-	(31,919)	(19,243)

CASH FLOW STATEMENTS

For the 52 weeks ended 26 April 2014 and the 52 weeks ended 27 April 2013

	Notes	Group 2014 £000	Group 2013 £000	Company 2014 £000	Company 2013 £000
Cash flows from (used in) operating activities					
Loss before tax		(18,837)	(25,782)	(966)	(3,849)
Net finance costs		8,092	7,600	1,865	2,516
Operating loss		(10,745)	(18,182)	899	(1,333)
Depreciation	12	13,853	14,536	-	-
Impairment charges	12	1,355	1,998	-	-
Loss on disposal of property, plant and equipment	4	779	590	-	-
Foreign exchange gains and losses	4	(1,739)	851	(1,345)	852
Pension contributions less income statement charge		(137)	(8)	-	-
		3,366	(215)	(446)	(481)
Movement in inventories		3,736	13,115	-	-
Movement in trade and other receivables		399	1,543	(15,125)	(24,278)
Movement in trade and other payables		44,969	(10,770)	52,801	(8,235)
Movement in provisions		620	(348)	-	-
Cash generated from operations		53,090	3,325	37,230	(32,994)
Income tax paid		(146)	(98)	-	-
Net cash flows from (used in) operating activities		52,944	3,227	37,230	(32,994)
Cash flows (used in) from investing activities					
Purchase of property, plant and equipment	12	(20,913)	(29,441)	-	-
Interest received		104	259	-	141
Net cash flows (used in) from investing activities		(20,809)	(29,182)	-	141
Cash (used in) from financing activities					
Interest paid		(2,441)	(2,425)	(2,393)	(2,365)
Repayment of capital element of finance leases		(608)	(702)	-	-
Bank loans (repaid) raised		(35,355)	35,149	(35,355)	35,149
Costs of raising finance		(92)	(702)	(92)	(702)
Net cash flows (used in) from financing activities		(38,496)	31,320	(37,840)	32,082
Net (decrease) increase in cash and cash equivalents	22	(6,361)	5,365	(610)	(771)
Opening cash and cash equivalents	16	27,121	20,687	381	239
Effect of exchange rate changes		133	1,069	230	913
Closing cash and cash equivalents	16	20,893	27,121	1	381

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

The consolidated financial statements of the Group for the period ended 26 April 2014 were authorised for issue by the Board on 23 October 2014. 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 26 April 2014 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, inventories, derivative financial instruments, interest bearing loans and borrowings and the Group's defined benefit pension obligations. 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 and its ultimate shareholder, 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 26 April 2014.

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 26 April 2014 whilst the comparative period covered the 52 weeks ended 27 April 2013. 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.

Result of the Parent Company

The directors have taken advantage of the exemption provided under Section 408 of the Companies Act 2006 not to publish the Parent Company individual Income Statement and related notes. The Parent Company's loss for the year ended 26 April 2014 was £966,000 (2013: loss £3,849,000).

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 any 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***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 the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate 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:

Property, plant, equipment and vehicles 10 to 33¹/₃%

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

Leased assets

In respect of property operating leases, benefits received and receivable as an incentive to sign a lease, such as rent-free periods 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, 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 year, so as to facilitate comparison with prior periods and to better assess trends in financial performance. Exceptional items recognised in arriving at operating result 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.

Customer loyalty schemes

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

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.

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

The Group has adopted the following amended accounting standards which were mandatory for the first time for the financial period ending 26 April 2014. They have no material impact on the Group.

- IAS 1 Presentation of Financial Statements: Amendments resulting from Annual Improvements 2009-11 Cycle (comparative information)
- IAS 16 Property, Plant and Equipment: Amendments resulting from Annual Improvements 2009-2011 Cycle (servicing equipment)
- IAS 19 Employee Benefits: Amended standard resulting from the post employee benefits and termination benefits projects
- IAS 27 Separate Financial Statements: Original issue
- IFRS 10 Consolidated Financial Statements: Original issue, Amendments to transitional guidance
- IFRS 12 Disclosure of Interests in Other Entities: Original issue, Amendments to transitional guidance
- IFRS 13 Fair Value Measurement: Original issue

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 16 Property, Plant and Equipment: Amendments resulting from Annual Improvements 2010-2012 Cycle (proportionate restatement of accumulated depreciation on revaluation)
- IAS 19 Employee Benefits: Amended to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service
- IAS 24 Related Party Disclosures: Amendments resulting from Annual Improvements 2010-2012 Cycle (management entities)
- IAS 32 Financial Statements: Presentation: Amendments relating to the offsetting of assets and liabilities
- IAS 36 Impairment of Assets: Amendments resulting from Recoverable amount disclosures for Non-Financial Assets
- IAS 38 Intangible Assets: Amendments resulting from Annual Improvements 2010-2012 Cycle (proportionate restatement of accumulated depreciation on revaluation)
- IFRS 2 Share Based Payments: Amendments resulting from Annual Improvements 2010-2012 Cycle (definition of 'vesting condition')

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:

	2014	2013
	£000	£000
Sale of goods	389,549	413,950
	389,549	413,950

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**4. Operating loss**

Operating loss is stated after charging (crediting):

	2014 £000	2013 £000
Depreciation of property, plant and equipment	13,853	14,536
Impairment charges	1,355	1,998
Loss on disposal of property, plant and equipment	779	590
Cost of inventories recognised as an expense	197,308	216,203
Write down of inventories	3,180	2,691
Net foreign exchange (gains) losses	(1,739)	851
Operating lease rentals		
Minimum rentals	51,927	55,369
Percentage rentals	66	35
Sublease rental income	(795)	(863)
Net operating lease rentals	51,198	54,541

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.

5. Fees to auditors

	2014 £000	2013 £000
Audit of the Group financial statements	15	15
Audit of the subsidiary financial statements	91	85

The audit fees disclosed above represent the statutory audit fees for all Group companies.

Fees to auditors for non-audit assurance services were £3,000 (2013: non audit assurance and tax services £5,000).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**6. Exceptional items**

	2014	2013
	£000	£000
Charged in arriving at operating loss:		
Impairment of property, plant and equipment	(1,355)	(1,998)
Restructuring costs	(3,743)	(1,384)
Store closure costs	(1,839)	(2,257)
	(6,937)	(5,639)

Included within Cost of sales:

Impairment charges for property, plant and equipment of £1,355,000 (2013: £1,998,000) following a review of the carrying value based on prevailing market conditions.

Exceptional costs of £3,245,000 (2013: £nil) relating to store organisational restructuring and related redundancy costs.

Exceptional store closure costs of £1,839,000 (2013: £2,257,000) including fixed asset write-offs, redundancy costs incurred, strip-out costs, stock obsolescence and provisions for future property costs.

Included within Administrative expenses:

Exceptional costs of £498,000 (2013: £1,384,000) relating to organisational restructuring and related redundancy costs.

A tax credit of £3,000 (2013: credit £11,000) arose in respect of the total exceptional costs.

7. Directors' emoluments

	2014	2013
	£000	£000
Salaries and fees	542	228
Other benefits	225	225
Total	767	453

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 their 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 comprise an entitlement to the future award of ordinary shares in, and loan notes from, the Company. At the date of approving these accounts, no loan or share notes have been awarded. 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.

One (2013: none) of the Directors is accruing benefits under the Group's pension arrangements.

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

	2014	2013
	£000	£000
Salaries and fees	395	50
Other benefits	22	150
Total	417	200

The emoluments of the highest paid director in the current year include £158,000 which related to prior years' service following finalisation of contractual terms.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**8. Employee costs**

	2014	2013
	£000	£000
Employee costs, including Directors' emoluments:		
Wages and salaries	53,952	57,489
Social security costs	3,737	4,545
Other pension costs	1,819	1,575
	59,508	63,609

The average number of people employed by the Group during the period was 3,588 (2013: 4,100).

9. Finance income

	2014	2013
	£000	£000
Defined benefit pension scheme interest income	156	129
Interest receivable from parent company	388	377
Interest receivable from other related parties	256	-
Bank interest receivable	104	251
Other interest receivable	-	8
Total finance income	904	765

10. Finance costs

	2014	2013
	£000	£000
Defined benefit pension scheme interest expense	217	193
Lease interest payable	45	49
Interest payable to parent company	6,971	4,419
Bank interest payable	1,760	3,693
Other interest payable	3	11
Total finance costs	8,996	8,365

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

Taxation recognised in the income statement:

	2014	2013
	£000	£000
Overseas tax, current year	181	282
Overseas tax, prior period	(39)	(52)
Total current tax	142	230
Deferred income tax, current year	(246)	-
Deferred income tax, prior period	(102)	(12)
Total taxation (credit) charge in the income statement	(206)	218

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

	2014	2013
	£000	£000
Current tax relating to defined benefit pension scheme	(39)	(56)
Deferred income tax relating to defined benefit pension scheme	31	(268)
Total taxation credit in the statement of comprehensive income	(8)	(324)

The standard rate of UK Corporation tax was reduced to 23% from 1 April 2013, to 21% from 1 April 2014 and will be further reduced to 20% from 1 April 2015. Current tax has therefore been provided at 22.8%. The Group considers that the timing differences included in the deferred tax calculation will, for the most part, reverse after 1 April 2015 and therefore the deferred tax liability has been calculated using the 20% rate.

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

	2014	2013
	£000	£000
Loss before taxation	(18,837)	(25,782)
Corporation tax at UK average statutory rate of 22.8% (2013: 23.9%)	(4,295)	(6,162)
Effects of:		
Permanent disallowables	1,019	2,529
Unrecognised temporary differences	2,953	3,563
Adjustments in relation to prior periods	(141)	(64)
Unrecognised tax losses	281	378
Tax rate differences	(23)	(26)
Total tax (credit) charge	(206)	218

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

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

	2014	2013
	£000	£000
Deferred income tax liability		
Holdover of capital gains	-	(321)
Total deferred income tax liability	-	(321)
Deferred income tax asset		
Accelerated depreciation for tax purposes	9	12
Other temporary differences relating to defined benefit pension scheme	278	314
Tax losses	28	-
Total deferred income tax asset	315	326
Deferred income tax net asset	315	5

Unprovided deferred tax

There are no unprovided deferred income tax liabilities.

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

	2014	2013
	£000	£000
Accelerated capital allowances	12,594	12,069
Tax losses	6,612	5,342
Other temporary differences	12	14
	19,218	17,425

The deferred income 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.

Company*Provided deferred income tax*

There are no provided deferred income tax assets or liabilities.

Unprovided deferred income tax

There are no unprovided deferred income tax liabilities.

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

	2014	2013
	£000	£000
Tax losses	596	510
	596	510

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**11. Taxation (continued)****Factors that may affect future tax charges**

The Finance Act 2013 was enacted on 17 July 2013 including a provision to reduce the corporation tax rate to 21% from 1 April 2014. The UK Government has also announced an intention to further reduce the UK corporation tax rate to 20% by the financial year commencing 1 April 2015. The Group considers that the timing differences included in the deferred income tax calculation will, for the most part, reverse after 1 April 2015 and therefore the deferred income assets and liabilities have been calculated using the 20% rate.

12. Property, plant and equipment**Group**

	Property, plant and equipment £000
Cost at 28 April 2012	61,953
Disposals	(607)
Additions	29,441
Exchange differences	119
Cost at 27 April 2013	90,906
Disposals	(1,629)
Additions	20,913
Exchange differences	(90)
Cost at 26 April 2014	110,100
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
Charge for period	13,853
Disposals	(850)
Impairment loss	1,355
Exchange differences	(80)
Depreciation at 26 April 2014	40,659
Net book value at 26 April 2014	69,441
Net book value at 27 April 2013	64,525

Property, plant and equipment has been written down by £1,355,000 (2013: £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% (2013: 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 property, plant and equipment held under finance leases at 26 April 2014 was £3,731,000 (2013: £4,442,000) of which £nil (2013: £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. Investment in subsidiaries****Company**

	£000
Cost at 26 April 2014, 27 April 2013 and 28 April 2012	24,131
Provision at 26 April 2014, 27 April 2013 and 28 April 2012	(24,131)
Net book value at 26 April 2014 and 27 April 2013	-

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
Waterstone's Booksellers Belgium SA	Belgium	Trading
Waterstone's Booksellers Amsterdam BV	Holland	Trading
Waterstones Overseas Limited	England & Wales	Non-trading
Hatchards UK Limited	England & Wales	Dormant
Ottakar's Limited	England & Wales	Dormant
Ottakar's Town Limited	England & Wales	Dormant
Waterstones Academic Bookstores Limited	England & Wales	Dormant

14. Trade and other receivables

	Group 2014 £000	Group 2013 £000	Company 2014 £000	Company 2013 £000
Current:				
Trade receivables	1,440	1,586	-	-
Amounts owed by parent undertaking	6,244	5,961	-	-
Amounts owed by subsidiary undertakings	-	-	110,067	93,029
Amounts owed by other related parties	4,563	-	4,563	-
Other receivables	3,436	5,755	-	-
Prepayments and accrued income	31,150	33,391	-	-
	46,833	46,693	114,630	93,029

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

Trade receivables are stated net of a provision for impairment of £19,000 (2013: £18,000). Trade receivables are non-interest bearing and are generally settled on 30 day terms. Other receivables are also non-interest bearing.

The amounts owed by parent undertaking and subsidiary undertakings 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%.

Amounts owed by other related parties comprise an interest bearing deposit of £4,563,000 (2013: £nil). The deposit is repayable on demand and interest is due at not less than 4% per annum.

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.

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 2014 £000	Group 2013 £000	Company 2014 £000	Company 2013 £000
Cash at bank and in hand	20,893	27,121	1	381
	20,893	27,121	1	381

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

17. Trade and other payables

	Group 2014 £000	Group 2013 £000	Company 2014 £000	Company 2013 £000
Non-current:				
Amounts owed to parent undertaking	133,126	-	133,126	-
	133,126	-	133,126	-
Current:				
Trade payables	28,752	36,974	-	-
Amounts owed to parent undertaking	6,244	77,930	-	71,969
Other payables	42,833	42,687	-	-
Accruals and deferred income	23,824	25,498	748	2,274
	101,653	183,089	748	74,243

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.

£133,126,000 (2013: £nil) of the amounts owed to parent undertaking are repayable on or before 23 June 2021 with the balance repayable on demand. Interest is charged on these balances at the higher of 7% per annum or the base rate of Barclays Bank plc at the date of advance plus 4%. Prior to 31 October 2013 the amounts owed to parent undertaking were repayable on demand. On this date a new funding agreement was entered into in connection with the repayment of a \$57.0m bank loan. Further explanation of the movements in the amounts owed to parent undertaking is provided in note 18.

18. Interest bearing loans and borrowings

	Group 2014 £000	Group 2013 £000	Company 2014 £000	Company 2013 £000
Non-current:				
Obligations under finance leases (see Note 26)	1,584	2,112	-	-
	1,584	2,112	-	-
Current:				
Obligations under finance leases (see Note 26)	528	608	-	-
Bank loan	-	37,444	-	37,444
	528	38,052	-	37,444

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**18. Interest bearing loans and borrowings (continued)**

Until 31 October 2013, the Group and the Company had a \$57.0m bank loan on which interest was payable at LIBOR plus 7.25%. This loan was repaid on 1 November 2013 through additional funding provided by the immediate parent undertaking (see Note 17). At the same time a new \$50.0m bank loan was drawn by the immediate parent undertaking, with security that includes a debenture on certain assets of the Group, including the Waterstones brand.

19. Provisions

	Group 2014 £000	Company 2014 £000
At 27 April 2013	4,660	-
Provisions created in the period	1,577	-
Provisions utilised	(2,721)	-
Provisions released	(291)	-
Exchange differences	(2)	-
At 26 April 2014	3,223	-
Analysed as:		
Current	2,260	-
Non-current	963	-
	3,223	-

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, £103,000 (2013: £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 26 April 2014 is £nil (2013: £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 from its immediate parent undertaking which have a final repayment date of 23 June 2021. These funding facilities comprise a revolving loan facility of £83.3m and a fixed loan of £60.7m, each balance exclusive of any accrued unpaid interest.

Analysis of the maturity profile of financial liabilities at 26 April 2014 and 27 April 2013 is shown below:

Group

	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	-	140	420	1,680	-	2,240
Trade and other payables	6,244	95,409	-	-	133,126	234,779
At 26 April 2014	6,244	95,549	420	1,680	133,126	237,019

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	-	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

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
Trade and other payables	-	748	-	-	133,126	133,874
At 26 April 2014	-	748	-	-	133,126	133,874

	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	71,969	2,274	-	-	-	74,243
At 27 April 2013	71,969	39,718	-	-	-	111,687

Interest rate risk

The Group is exposed to interest rate risk from its borrowings and cash deposits. However, the strong seasonality of 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 parent company's loan 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 the result 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 result before tax and shareholders' equity by approximately £1.1m (2013: £0.8m).

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 £0.5m (2013: £3.6m). The Group has a 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 cash and cash equivalents (see Note 16), loans and borrowings through its intra-group facilities (see Note 17) and from external sources (see Note 18) 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 27 April 2013 £000	Cash flow £000	Other non- cash changes £000	At 26 April 2014 £000
Cash at bank and in hand	27,121	(6,361)	133	20,893
Loans and borrowings – non-current	(2,112)	-	528	(1,584)
Loans and borrowings – current	(38,052)	36,787	737	(528)
Total loans and borrowings	(40,164)	36,787	1,265	(2,112)
Net debt	(13,043)	30,426	1,398	18,781

	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)

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

Company

	At 27 April 2013 £000	Cash flow £000	Other non- cash changes £000	At 26 April 2014 £000
Cash at bank and in hand	381	(610)	230	1
Loans and borrowings – current	(37,444)	36,179	1,265	-
Total loans and borrowings	(37,444)	36,179	1,265	-
Net debt	(37,063)	35,569	1,495	1

	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)

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

	2014 Number	2014 £000	2013 Number	2013 £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.

The Company, together with Waterstones Booksellers Limited, a subsidiary, are guarantors of a \$50m bank loan facility held by the European Parent company. Part of the security for this loan facility is a debenture on certain assets of the Group, including the Waterstones brand.

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, 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. Under the auto-enrolment element of the Plan employees have to pay 1% of pensionable salary into the scheme which is matched by Waterstones. There is also a voluntary element to the Plan under which 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%. Employer contributions to the scheme during the year were £1,686,000 (2013: £1,502,000).

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 2013 and at that date the market value of the assets was sufficient to cover 89% of the value of the liabilities of the Scheme, representing a funding deficit of €640,000. It was agreed to fund this by three additional annual contributions of €230,000 commencing on 1 April 2014 and the first additional payment was made during the year. The future service contribution rate was unchanged at 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 2016.

Employer contributions to the Scheme for the period to 26 April 2014 were £270,000 (2013: £81,000). The total employer contributions to the Scheme for the financial year commencing on 27 April 2014 are expected to be £259,000.

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)**

The Group has adopted IAS 19 Employee Benefits: Amended standard resulting from the post employee benefits and termination benefits projects for the first time for the financial period ending 26 April 2014. If this standard was applied retrospectively the impact would not be material.

The major assumptions used in the calculations are as follows:

	As at 26 April 2014	As at 27 April 2013
	% per annum	% per annum
Rate of price inflation	2.0	2.0
Rate of salary increase	2.5	3.0
Rate of increase for pensions in payment	2.0	2.0
Rate used to discount scheme liabilities	3.3	3.6

The post retirement mortality assumptions used at 26 April 2014 are based on the guidance issued by the Society of Actuaries in Ireland: Actuarial Standard of Practice PEN-2: Calculation of Transfer Values.

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 26 April 2014 are set out below:

	2014 £000	2013 £000
Recognised in the income statement		
Current service cost	(133)	(73)
Total recognised in arriving at operating loss	(133)	(73)
Interest on Scheme liabilities	(217)	(193)
Interest on Scheme assets	156	129
	(61)	(64)
Total income statement charge before deduction for taxation	(194)	(137)
Taken to the statement of comprehensive income		
Actual return on Scheme assets	246	368
Less: interest on Scheme assets	(156)	(129)
Actuarial gains and losses on Scheme assets	90	239
Actuarial gains and losses on Scheme liabilities	(212)	(1,900)
Total loss recognised in the statement of comprehensive income	(122)	(1,661)

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

	As at 26 April 2014 £000	As at 27 April 2013 £000
Equities	2,264	2,168
Bonds	1,956	1,463
Real estate	95	73
Other	422	562
Total market value of assets	4,737	4,266
Actuarial value of Scheme liabilities	(6,505)	(6,018)
Deficit in the Scheme	(1,768)	(1,752)
Deferred tax	278	314
Net pension liability	(1,490)	(1,438)

The average duration of the defined benefit plan obligation at the end of the reporting period is 25 years.

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:

	2014	2013
	€000	€000
Total market value of assets at the beginning of the period	4,266	3,671
Employer contributions	270	81
Employee contributions	35	38
Interest on pension scheme assets	156	129
Actuarial gain	90	239
Exchange differences	(80)	108
Total market value of assets at the end of the period	4,737	4,266

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

	2014	2013
	€000	€000
Defined benefit pension obligations at the beginning of the period	(6,018)	(3,656)
Current service cost	(133)	(73)
Interest on pension scheme liabilities	(217)	(193)
Employee contributions	(35)	(38)
Benefits paid	-	-
Actuarial loss	(212)	(1,900)
Exchange differences	110	(158)
Defined benefit pension obligations at the end of the period	(6,505)	(6,018)

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

	2014	2013	2012	2011	2010
	€000	€000	€000	€000	€000
Fair value of Scheme assets	5,732	5,076	4,478	3,479	4,335
Present value of defined benefit obligation	(7,871)	(7,161)	(4,460)	(5,079)	(4,366)
(Deficit) surplus in the Scheme	(2,139)	(2,085)	18	(1,600)	(31)
Experience adjustments arising on Scheme assets	107	293	(134)	(269)	689
(Loss) gain on assumptions	(490)	(2,221)	(301)	152	(693)
Experience adjustments arising on Scheme liabilities	238	(107)	15	(410)	(22)

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 €2,954,000 (2013: loss €2,809,000). 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.

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

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%

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

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 2014 £000	Other 2014 £000	Land and Buildings 2013 £000	Other 2013 £000
Not later than one year	46,713	113	48,085	136
Between two and five years inclusive	137,638	196	147,094	108
After five years	90,957	-	98,503	-
	275,308	309	293,682	244

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 26 April 2014 is £2,925,000 (2013: £2,330,000)

Obligations under finance leases

The Group has acquired certain plant and equipment under finance leases. 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 2014 £000	Group 2013 £000
Not later than one year	560	638
Between two and five years inclusive	1,680	2,240
	2,240	2,878
Less: finance charges allocated to future periods	(128)	(159)
Present value of minimum lease payments	2,112	2,719

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

	Group 2014 £000	Group 2013 £000
Not later than one year	528	607
Between two and five years inclusive	1,584	2,112
	2,112	2,719

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**26. Obligations under leases (continued)****Company**

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

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 during the period	Amounts owed by related party	Amounts owed to related party
	£000	£000	£000
With immediate parent undertaking: A&NN Holdings Limited			
2014	(6,583)	6,244	(139,370)
2013	(4,042)	5,961	(77,930)
With other companies within the A&NN Capital Management Fund Limited group: Alpazo Limited			
2014	256	4,563	-
2013	-	-	-

The amounts owed by and to the immediate parent undertaking and the subsidiary undertakings comprise intercompany loans and accrued interest.

The amounts owed by subsidiary undertakings are repayable on demand. These loans 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%.

£133,126,000 (2013: £nil) of the amounts owed to parent undertaking are repayable on or before 23 June 2021 with the balance repayable on demand. Interest is charged on these balances at the higher of 7% per annum or the base rate of Barclays Bank plc at the date of advance plus 4%. Prior to 31 October 2013 the amounts owed to parent undertaking were repayable on demand. On this date a new funding agreement was entered into in connection with the repayment of a \$57.0m bank loan. This loan was repaid on 1 November 2013 through additional funding provided by the immediate parent undertaking. At the same time a new \$50.0m bank loan was drawn by the immediate parent undertaking, with security that includes a debenture on certain assets of the Group, including the Waterstones brand.

The amounts due from other related parties comprise an interest bearing deposit of £4,563,000. This deposit is repayable on demand and interest is due at not less than 4% per annum.

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

	Net interest accrued during the period	Amounts owed by related party	Amounts owed to related party
	£000	£000	£000
With immediate parent undertaking:			
A&NN Holdings Limited			
2014	(6,583)	-	(133,126)
2013	(4,042)	-	(71,969)
With subsidiary undertakings:			
Waterstones Booksellers Limited			
2014	6,220	110,067	-
2013	5,077	93,029	-
With other companies within the A&NN Capital Management Fund Limited group:			
Alpazo Limited			
2014	256	4,563	-
2013	-	-	-

The amounts owed by and to the immediate parent undertaking and the subsidiary undertakings comprise intercompany loans and accrued interest.

The amounts owed by subsidiary undertakings are repayable on demand. These loans 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%.

£133,126,000 (2013: £nil) of the amounts owed to parent undertaking are repayable on or before 23 June 2021 with the balance repayable on demand. Interest is charged on these balances at the higher of 7% per annum or the base rate of Barclays Bank plc at the date of advance plus 4%. Prior to 31 October 2013 the amounts owed to parent undertaking were repayable on demand. On this date a new funding agreement was entered into in connection with the repayment of a \$57.0m bank loan. This loan was repaid on 1 November 2013 through additional funding provided by the immediate parent undertaking. At the same time a new \$50.0m bank loan was drawn by the immediate parent undertaking, with security that includes a debenture on certain assets of the Group, including the Waterstones brand.

The amounts due from other related parties comprise an interest bearing deposit of £4,563,000. This deposit is repayable on demand and interest is due at not less than 4% per annum.

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.