Company Number 00610095

Waterstones Booksellers Limited

Report and Accounts

52 weeks ended 27 April 2013

SATURDAY
A30C65Y1
A28 25/01/2014 #68
COMPANIES HOUSE

COMPANY INFORMATION

DIRECTORS

A J Daunt
M T Miles

SECRETARY

M T Miles

REGISTERED OFFICE

203-206 Piccadilly
London
W1J 9HD

COMPANY NUMBER

00610095

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

Business review

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

During the prior period, the entire issued share capital of the Company was sold by HMV Group plc to A&NN Capital Management Fund Limited The change of ownership resulting from this transaction, combined with funding constraints as HMV Group plc completed a financial restructuring, adversely impacted the business This was 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 business, 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 part funded by working capital efficiency, with inventory levels reduced by £12 4m on the prior year end, whilst margin and operating costs have been efficiently managed across the business

As a result, from total sales of £398 5m (down 2 9% on the prior year) the operating loss before exceptional items was £12 2m, a £13 2m improvement from a loss of £25 4m in the prior period Operating exceptional costs totalled £5 4m (2012 £8 6m), including £2 1m of store closure costs, £2 0m impairment of property, plant and equipment and £1 4m of organisational restructuring costs

During the period under review eight stores were closed, resulting in a total estate of 278 stores at 27 April 2013

The loss after taxation amounted to £23 0m (2012 £42 9m) No dividend was paid during the period (2012 £nil) and the Directors recommend that no final dividend be declared (2012 £nil) with the loss being transferred to reserves

Principal risks and uncertainties

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

Directors

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

DIRECTORS' REPORT (CONTINUED)

Employee policies

The company operates a decentralised HR function This provides greater accountability to employees and aids the development of flexible and entrepreneurial book teams that can thrive under the 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 Company did not impose standard payment terms on its suppliers but agreed specific terms with each and ensured that each supplier was made aware of such terms It was the Company's policy to pay its suppliers in accordance with the terms that they had agreed The number of days' purchases outstanding as payable at 27 April 2013 was calculated as 66 (2012 64)

Charitable donations

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

Auditors

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

1 to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware, and

2 each Director has taken all steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information

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

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

Going concern

The Directors report that, having reviewed current performance and forecasts, they have a reasonable expectation that the Company 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

On behalf of the Board

M T Miles

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

(i) select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Estimates and then apply them consistently,

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

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

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

(v) make judgements and estimates that are reasonable and prudent.

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

We confirm that, to the best of our knowledge

(i) the financial statements, prepared in accordance with IFRS, present fairly the assets, liabilities, financial position and loss of the Company, and

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

By order of the Board

A J Daunt
Director
17 October 2013

M T Miles
Director
17 October 2013

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

We have audited the financial statements of Waterstones Booksellers Limited for the 52 weeks ended 27 April 2013, which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 31 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

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

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

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

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 27 April 2013 and of its loss for the 52 weeks then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

Ernst & Young LLP

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

INCOME STATEMENT

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

	Notes	Before exceptional items 2013 £000	Exceptional items 2013 £000	Total 2013 £000
Revenue	4	**398,464**	**-**	**398,464**
Cost of sales		**(386,109)**	**(4,063)**	**(390,172)**
Gross profit		**12,355**	**(4,063)**	**8,292**
Administrative expenses		**(24,557)**	**(1,384)**	**(25,941)**
Operating loss	5	**(12,202)**	**(5,447)**	**(17,649)**
Finance income	10	**119**	**-**	**119**
Finance costs	11	**(5,516)**	**-**	**(5,516)**
Loss before taxation		**(17,599)**	**(5,447)**	**(23,046)**
Taxation	12	**3**	**-**	**3**
Loss for the period		**(17,596)**	**(5,447)**	**(23,043)**

	Notes	Before exceptional items Restated 2012 £000	Exceptional items 2012 £000	Total Restated 2012 £000
Revenue	4	410,354	-	410,354
Cost of sales		(412,184)	(8,009)	(420,193)
Gross loss		(1,830)	(8,009)	(9,839)
Administrative expenses		(23,572)	(637)	(24,209)
Operating loss	5	(25,402)	(8,646)	(34,048)
Finance income	10	95	-	95
Finance costs	11	(3,361)	-	(3,361)
Loss before taxation		(28,668)	(8,646)	(37,314)
Taxation	12	(7,141)	1,548	(5,593)
Loss for the period		(35,809)	(7,098)	(42,907)

See Accounting Policies on pages 11 to 15 for the description of the 2013 and 2012 reporting periods

For details of the prior year restatement see note 3

For details of the exceptional items included above, see note 7

All results relate to continuing activities

STATEMENT OF COMPREHENSIVE INCOME

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

	2013 £000	2012 £000
Loss for the period attributable to the shareholders of the Company	**(23,043)**	(42,907)
Gain on forward foreign exchange contracts	-	92
Other comprehensive income for the period	-	92
Total comprehensive loss for the period attributable to the shareholders of the Company	**(23,043)**	(42,815)

BALANCE SHEET

	Notes	As at 27 April 2013 £000	As at 28 April 2012 £000
Assets			
Non-current assets			
Property, plant and equipment	13	**64,050**	51,584
Intangible assets	14	**-**	-
Investments in subsidiaries	15	**27,261**	27,261
		91,311	78,845
Current assets			
Inventories	17	**65,988**	78,437
Trade and other receivables	16	**40,758**	46,392
Cash and short-term deposits	18	**25,024**	19,819
		131,770	144,648
Total assets		**223,081**	223,493
Liabilities			
Non-current liabilities			
Deferred income tax liability	12	**(321)**	(324)
Interest bearing loans and borrowings	20	**(2,112)**	(2,720)
Provisions	21	**(1,642)**	(2,252)
		(4,075)	(5,296)
Current liabilities			
Trade and other payables	19	**(230,054)**	(206,402)
Interest bearing loans and borrowings	20	**(607)**	(702)
Provisions	21	**(2,524)**	(2,229)
		(233,185)	(209,333)
Total liabilities		**(237,260)**	(214,629)
Net (liabilities) assets		**(14,179)**	8,864
Equity			
Share capital	25	**71,014**	71,014
Accumulated losses		**(85,193)**	(62,150)
Total equity		**(14,179)**	8,864

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

M T Miles
Director

STATEMENT OF CHANGES IN EQUITY

	Share capital	Hedging reserve	Accumulated losses	Total
	£000	£000	£000	£000
At 30 April 2011	71,014	(92)	(19,246)	51,676
Gain (loss) for the period	-	92	(42,907)	(42,815)
Total comprehensive gain (loss)	-	92	(42,907)	(42,815)
Charge for share-based payments	-	-	3	3
Deferred tax on share-based payments	-	-	-	-
At 28 April 2012	**71,014**	-	**(62,150)**	**8,864**
Loss for the period	-	-	(23,043)	(23,043)
Total comprehensive loss	-	-	(23,043)	(23,043)
At 27 April 2013	**71,014**	-	**(85,193)**	**(14,179)**

CASH FLOW STATEMENT

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

	Notes	2013 £000	2012 £000
Cash flows from operating activities			
Loss before tax		**(23,046)**	(37,314)
Net finance costs		**5,397**	3,266
Depreciation	13	**14,299**	13,534
Impairment charges	5	**1,998**	2,191
Loss on disposal of property, plant and equipment	5	**590**	527
Equity-settled share-based payment charge	9	**-**	3
		(762)	(17,793)
Movement in inventories		**12,449**	(5,984)
Movement in trade and other receivables		**5,634**	4,095
Movement in trade and other payables		**18,187**	33,208
Movement in provisions		**(315)**	(257)
Net cash flows from operating activities		**35,193**	13,269
Cash flows from investing activities			
Purchase of property, plant and equipment		**(29,517)**	(7,794)
Proceeds from disposal of property, plant and equipment		**164**	
Interest received		**119**	-
Net cash flows from investing activities		**(29,234)**	(7,794)
Cash flows from financing activities			
Interest paid		**(51)**	(302)
Repayment of capital element of finance leases		**(703)**	(701)
Net cash flows from financing activities		**(754)**	(1,003)
Net increase in cash and cash equivalents	24	**5,205**	4,472
Opening cash and cash equivalents	18	**19,819**	15,347
Closing cash and cash equivalents	18	**25,024**	19,819

NOTES TO THE FINANCIAL STATEMENTS

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

The financial statements of Waterstones Booksellers Limited for the period ended 27 April 2013 were authorised for issue by the Board on 17 October 2013 and the Balance Sheet was signed on the Board's behalf by A J Daunt and M T Miles Waterstones Booksellers Limited is incorporated and domiciled in England and Wales

The financial statements have been prepared in accordance with IFRS as applied in accordance with the provisions of the Companies Act 2006

2. Accounting policies

Basis of preparation

These financial statements are made up to the Saturday on or immediately preceding 30 April each year Consequently, the financial statements for the current period cover the 52 weeks ended 27 April 2013, whilst the comparative period covered the 52 weeks ended 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

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

The Company is exempt from preparing group financial statements as it is itself a subsidiary undertaking under Section 400 of the Companies Act 2006 These financial statements therefore present information about the Company as an individual undertaking and not about its Group

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

The Directors report that, having reviewed current performance and forecasts, they have a reasonable expectation that the Company 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

Judgements and key sources of estimation uncertainty

The judgements and key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows

Impairment of goodwill and other assets – goodwill is tested for impairment on at least an annual basis As part of this testing, the value in use of the cash-generating units to which the goodwill is allocated is assessed, which requires the estimation of future cash flows and choosing a suitable discount rate Property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable When a review for impairment is conducted, the recoverable amount of an asset or a cash generating unit is determined based on value-in-use calculations prepared 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 Company's total tax charge requires a degree of estimation and judgement in respect of certain transactions whose ultimate tax treatment is uncertain Where the final outcome of these tax matters differs from the amounts that were initially recorded, the tax charge and deferred tax provisions will be impacted

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

Investments in subsidiaries

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting policies (continued)

Revenue

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

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

Exceptional items

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

Goodwill

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

Property, plant and equipment

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

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

The annual rates used are

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

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

Leased assets

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting policies (continued)

Impairment of assets

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

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

Inventories

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

Taxation

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

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

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

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

Deferred income tax assets and liabilities are measured 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 Company intends to settle its current tax assets and liabilities on a net basis

Cash and cash equivalents

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting policies (continued)

Interest bearing loans and borrowings

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

Provisions

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

Pension costs

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

Share-based payments

A number of share-based payment schemes were operated by the former ultimate parent undertaking, HMV Group plc, in which the Company's employees participated On 28 June 2011, when HMV Group plc sold its investment in the Company, employee participation in share schemes operated by HMV Group plc ended

The Company recognises the transfer of equity instruments to its employees as share-based payment transactions within the scope of IFRS 2 *Share-based Payments*

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

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

Derivative financial instruments

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

Hedge accounting

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting policies (continued)

Customer loyalty schemes

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

New accounting standards

The Company has adopted the following 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 Company

- IAS 12 Income Taxes (amended December 2010)

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

- 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 Company's financial statements

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

3. Prior year restatement

The allocation of costs between Cost of sales and Administrative expenses in the prior period has been reviewed in the current period This has resulted in a reclassification of certain costs as follows

	Before exceptional items As previously reported 2012 £000	Before exceptional items As restated 2012 £000
Cost of sales	404,175	412,184
Administrative expenses	31,581	23,572

This reclassification has no impact on the Loss for the period as previously reported

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Revenue

Revenue disclosed in the income statement is analysed as follows

	2013 £000	2012 £000
Sale of goods	**398,464**	410,354

5. Operating loss

	2013 £000	2012 £000
Operating loss is stated after charging (crediting)		
Depreciation of property, plant and equipment	**14,299**	13,534
Impairment charges	**1,998**	2,191
Loss on disposal of property, plant and equipment	**590**	527
Cost of inventories recognised as expense	**208,220**	224,032
Write down of inventories	**2,688**	5,320
Auditor remuneration	**78**	78
Operating lease rentals		
Minimum rentals	**53,540**	55,013
Percentage rentals	**35**	99
Sublease rentals	**(863)**	(965)
	52,712	54,147

The Company leases stores and office premises 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

6. Fees to auditors

	2013 £000	2012 £000
Audit of the financial statements	**78**	78

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. Exceptional items (before taxation)

	2013 £000	2012 £000
Charged in arriving at operating profit		
Impairment of property, plant and equipment	**(1,998)**	(2,191)
Restructuring and redundancy costs	**(1,384)**	(637)
Store closure costs	**(2,065)**	(2,113)
Stock provisions	**-**	(3,705)
	(5,447)	(8,646)

Included within Cost of sales -

Exceptional store closure costs of £2,065,000 (2012 £2,113,000) 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 £2,191,000) following a review of the carrying value based on prevailing market conditions

Stock provisions of £nil (2012 £3,705,000)

Included within Administrative expenses -

Exceptional costs of £1,384,000 (2012 £637,000) relating to organisational restructuring and related redundancy costs

A tax credit of £nil (2012 £1,548,000) arose in respect of these costs

8. Directors' emoluments

	2013 £000	2012 £000
Emoluments	**251**	339
Pension contributions	**30**	16
Termination benefits	**-**	563
	281	918

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

	2013 £000	2012 £000
Emoluments	**148**	120
Pension contributions	**30**	-
	178	120

9. Employee costs

	2013 £000	2012 £000
Employee costs, including Directors' emoluments		
Wages and salaries	**54,436**	58,920
Social security costs	**4,076**	4,882
Other pension costs (see Note 28)	**1,474**	1,010
	59,986	64,812

Included in wages and salaries is a charge for equity-settled share-based payments of £nil (2012 £3,000)

The average number of people employed by the Company during the period was 3,968 (2012 4,443)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. Finance income

	2013 £000	2012 £000
Bank interest receivable	111	83
Other interest receivable	8	12
Total finance income	119	95

11. Finance costs

	2013 £000	2012 £000
External loans and overdrafts	61	50
Interest payable to group undertakings	5,455	3,311
Total finance costs	5,516	3,361

12 Taxation

	2013 £000	2012 £000
Taxation recognised in the income statement		
United Kingdom, current year		
Corporation tax	-	-
Over provision in prior periods	-	(1,927)
	-	(1,927)
Overseas tax, current year	-	-
Total current tax	-	(1,927)
Deferred tax		
United Kingdom	(3)	7,520
Total deferred tax	(3)	7,520
Total taxation (credit) charge in the income statement	(3)	5,593

The tax charge in the current year includes a credit of £nil (2012 £1,548,000) in relation to the exceptional operating costs of £5,447,000 (2012 £8,646,000), details of which can be found in Note 7

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Taxation (continued)

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

	2013 £000	2012 £000
Loss before taxation	**(23,046)**	(37,314)
Corporation tax at UK average statutory rate of 23 9% (2012 25 9%)	**(5,508)**	(9,664)
Effects of		
Permanent disallowables	**1,864**	859
Permanent disallowables on exceptional items	-	692
Current tax prior period over provision	-	(1,927)
Derecognition of deferred tax asset	-	7,547
Unrecognised temporary differences in current period	**3,563**	3,549
Unrecognised unutilised tax losses	**81**	4,564
Deferred tax rate change	**(3)**	(27)
Total tax (credit) charge	**(3)**	5,593

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

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

	2013 £000	2012 £000
Deferred tax liability		
Holdover of capital gains	**(321)**	(324)
	(321)	(324)

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 £000	2012 £000
Accelerated capital allowances	**12,069**	10,193
Other temporary differences	**14**	15
Tax losses	**4,784**	4,229
	16,867	14,437

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

In the prior year the deferred tax asset brought forward at 1 May 2011 relating to accelerated capital allowances and other temporary differences totaling £7,520,000 was derecognised and taken to the income statement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Taxation (continued)

A reduction to the standard rate of UK corporation tax from 23% to 21% would reduce the deferred tax asset not recognised by £1,406,000 A reduction in the rate to 20% would reduce the deferred tax asset not recognised by a further £733,000

13. Property, plant and equipment

	Plant, equipment and vehicles
	£000
Cost at 30 April 2011	192,282
Disposals	(2,828)
Additions	7,794
Cost at 28 April 2012	197,248
Disposals	(6,567)
Additions	29,517
Cost at 27 April 2013	**220,198**
Depreciation at 30 April 2011	132,240
Charge for period	13,534
Impairment loss	2,191
Disposals	(2,301)
Depreciation at 28 April 2012	145,664
Charge for period	14,299
Impairment loss	1,998
Disposals	(5,813)
Depreciation at 27 April 2013	**156,148**
Net book value at 27 April 2013	**64,050**
Net book value at 28 April 2012	51,584
Net book value at 30 April 2011	60,042

Property, plant and equipment has been written down by £1,998,000 (2012 £2,191,000), 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% (2012 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 year Leased assets are pledged as security for the related finance leases

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. Intangible assets

	Goodwill £000
Cost at 30 April 2011	69,347
Cost at 28 April 2012	69,347
Cost at 27 April 2013	**69,347**
Provision at 30 April 2011	(69,347)
Provision at 28 April 2012	(69,347)
Provision at 27 April 2013	**(69,347)**
Net book value at 28 April 2012 and 27 April 2013	-

Goodwill of £69,347,000 which arose on the acquisition of the trade and assets of the subsidiary undertaking Waterstones Overseas Limited on 26 April 2008 was capitalised This goodwill was subject to an annual impairment review so as to ensure that the carrying amount was not greater than the recoverable amount On the basis of such a review, provision was made at 30 April 2011 against the full value of the goodwill This reflected the valuation of the Company inherent in the sale of the business by HMV Group plc on 28 June 2011 for £53 5m on a cash-free, debt-free basis

15. Investments: subsidiaries

	Cost £000	Provision £000	Net book value £000
At 30 April 2011	27,261	-	27,261
At 28 April 2012	27,261	-	27,261
At 27 April 2013	**27,261**	-	**27,261**

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

Name of undertaking	Country of incorporation	Activity
Waterstones Overseas Limited	England & Wales	Non-trading
Hatchards UK Limited	England & Wales	Non-trading

16. Trade and other receivables

	2013 £000	2012 £000
Current		
Trade receivables	**1,502**	4,432
Amounts owed by parent and fellow subsidiary undertakings	**686**	817
Other receivables	**5,662**	10,192
Prepayments and accrued income	**32,908**	30,951
	40,758	46,392

The carrying value of trade and other receivables approximates to fair value Trade receivables are stated net of a provision for impairment of £16,000 (2012 £47,000) Credit risk is limited as the Company has minimal levels of trade receivables due to the nature of its retailing business See Note 23 for a discussion of credit risk. Trade and other receivables are non-interest bearing and are generally on 30 day terms See Note 31 for the terms and conditions relating to related party receivables

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. 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

18. Cash and short-term deposits

	2013	2012
	£000	£000
Cash at bank and in hand	**25,024**	19,819

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

19. Trade and other payables

	2013	2012
	£000	£000
Current.		
Trade payables	**35,572**	40,400
Amounts owed to UK parent, ultimate European parent and fellow subsidiary undertakings	**130,300**	100,418
Other payables	**41,843**	39,272
Accruals and deferred income	**22,339**	26,312
	230,054	206,402

The carrying value of trade and other payables approximates to fair value Trade payables are not interest-bearing and are generally settled on 30-60 day terms Other payables and accruals are not interest-bearing Of the amounts owed to UK parent, ultimate European parent and fellow subsidiary undertakings, £98,990,000 (2012 £69,109,000) is repayable on demand, (£93,030,000 of which is repayable within 30 days of demand and £5,960,000 immediately) and on which interest is charged at 7% per annum or the base rate of Barclays Bank plc at date of advance plus 4%, whichever is higher

No interest is charged on the remaining amounts owed to parent and fellow subsidiary See Note 31 for the terms and conditions relating to related party payables

20. Interest bearing loans and borrowings

	2013	2012
	£000	£000
Non-current.		
Obligations under finance leases (see Note 29)	**2,112**	2,720
	2,112	2,720
Current.		
Obligations under finance leases (see Note 29)	**607**	702
	607	702

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21. Provisions

	Total
	£000
At 28 April 2012	4,481
Charged during the year	607
Provisions utilised	(922)
At 27 April 2013	**4,166**
Analysed as	
Current	**2,524**
Non-current	**1,642**
	4,166

Provisions almost entirely consist of amounts in respect of store closures and restructuring The utilisation of provisions in the year largely reflects store closures The £607,000 provision created in the year related to further store closures £475,000 of the provisions are expected to be utilised after five years from the balance sheet date

22. Derivative financial instruments

Currency derivatives
The Company can use derivative instruments as part of a policy of managing foreign currency exchange risk arising on expected future purchases of internationally sourced products The implementation of these derivative instruments is negotiated to match expected purchases and they therefore qualify for hedge accounting The fair value of cash flow hedges in place at 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)

23. Financial risk factors

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

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

The Company has access to UK parent and European parent funding facilities under loan agreements that were put in place on and since acquisition by Waterstones Holdings Limited These funding facilities consist of a revolving credit facility of £65m and a term loan of £33m The Company is also a guarantor to the UK Parent Company's US$57m bank loan facility This facility has a current expiry of 31 October 2013 subject to further extension or replacement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. Financial risk factors (continued)

Analysis of the maturity profile of the Company's financial liabilities at 28 April 2013 is shown below

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
	£000	£000	£000	£000	£000	£000
Finance leases	-	160	478	2,240	-	2,878
Trade and other payables	98,990	131,064	-	-	-	230,054
At 27 April 2013	98,990	131,224	478	2,240	-	232,932
Finance leases	-	185	569	2,360	562	3,676
Trade and other payables	69,109	137,201	-	-	-	206,310
At 28 April 2012	69,109	137,386	569	2,360	562	209,986

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

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

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

Foreign exchange risk
Forward foreign exchange contracts are used to hedge the foreign exchange risk of imports where volumes are significant No speculative positions are entered into There were no currency contracts outstanding at the current or prior balance sheet date (see Note 22)

Sensitivity analysis
The following sensitivity analysis illustrates the sensitivity to changes in market variable of the Company's financial instruments and shows the impact on profit or loss before tax and shareholders' funds

Interest rate sensitivity
Based on the Company's net debt position at the year end, and including interest bearing intercompany loans, a 100 basis points movement in interest rates would affect the Company's profit or loss before tax and shareholders' equity by approximately £0 7m (2012 £0 5m)

Foreign exchange rate sensitivity
The Company imports products from overseas A 10% change in the value of Euro and US Dollar against Sterling would affect the Company's profit or loss before tax and the shareholders' equity by approximately £0 2m (2012 £0 2m)

Capital management
During the year under review, the core objective of the Company was to ensure that it would be able to continue to operate as a going concern, as well as having sufficient funds available to grow the business for the benefit of its parent company and other stakeholders The capital structure of the Company comprises loans and borrowings through its intra-group facilities (see Note 19), cash and cash equivalents (see Note 18) and equity attributable to the parent company (see Note 25)

The Company is also a guarantor to the UK Parent Company's US$57m bank loan facility This facility has a current expiry of 31 October 2013 subject to further extension or replacement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 Additional cash flow information

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

	At 28 April 2012 £000	Cash flow £000	Other non-cash changes £000	At 27 April 2013 £000
Cash at bank and in hand	**19,819**	**5,205**	**-**	**25,024**
Cash and cash equivalents	**19,819**	**5,205**	**-**	**25,024**
Loans and borrowings – non-current	**(2,720)**	**-**	**608**	**(2,112)**
Loans and borrowings – current	**(702)**	**703**	**(608)**	**(607)**
Total loans and borrowings	**(3,422)**	**703**	**-**	**(2,719)**
Net debt	**16,397**	**5,908**	**-**	**22,305**

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

Other non-cash changes represent movements in finance lease funding

25. Share capital

	2013 Number '000	2012 Number '000	2013 £000	2012 £000
Authorised				
Ordinary Shares of £1 each	**121,014**	121,014	**121,014**	121,014
Allotted, called up and fully paid				
Ordinary Shares of £1 each	**71,014**	71,014	**71,014**	71,014

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. Share-based payments

Prior to the separation of Waterstones from the HMV Group plc on 28 June 2011, certain of the Company's employees participated in share-based payment schemes of the HMV Group plc All such participation ended on the date of separation Subsequently, HMV Group plc entered administration on 15 January 2013 with no value expected to accrue to its shareholders

Equity-settled share option plan

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

Pursuant to the rules of the 2002 Scheme, options were granted at the five-day average of the market value of HMV Group plc's shares on the date of grant The options can normally only be exercised after three years and then subject to the achievement of earnings per share targets imposed at the date of grant. If options remain unexercised after a period of 10 years from the date of grant, the options expire and options are forfeited if the employee leaves the Group before the option vests or before vested options are exercised However, the employee's rights to exercise the outstanding options are unchanged by the change of ownership of the Company

There was no charge for share options in respect of employee services during the period ended 27 April 2013 (2012 £nil) There were no grants of share options during the period under review or the prior period

	2013	**2013**	2012	2012
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
	Number	**Pence**	Number	Pence
Outstanding at beginning of period	-	-	156,142	167
Lapsed during the period	-	-	(156,142)	167
Outstanding at end of the period	-	-	-	-
Exercisable at end of the period	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. Share-based payments (continued)

Equity-settled deferred annual bonus

During the prior period certain of the Company's senior management were eligible for a deferred annual bonus that is equity-settled in the shares of the ultimate parent undertaking, HMV Group plc This is the HMV Group plc Incentive Plan for Senior Executives (HIPS) Under this arrangement, these awards are made in shares and the number of shares awarded, together with the fair value of the award, is determined by reference to the market value of shares at the time the award is made, not when it is paid No adjustment to value is made for expected dividend income during the vesting period The deferred award normally vests following the third anniversary of the end of the financial year in which the award is made, subject to the performance of the individual

The charge in respect of deferred awards during the period ended 27 April 2013 was £nil (2012 £3,000)

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

	2013	2013	2012	2012
	Share awards	Weighted average fair value	Share awards	Weighted average fair value
	Number	Pence	Number	Pence
Outstanding at beginning of period	-	-	120,160	76
Vested during the period	-	-	(120,160)	76
Outstanding at end of the period	-	-	-	-

Of the outstanding balance at 2011, the assessment of performance conditions at 30 April 2011 and the change in Company ownership resulted in 120,160 share awards vesting in 2012

Equity-settled Performance Share Plan ('PSP')

Under the PSP certain employees are granted an award of shares of the ultimate parent undertaking, HMV Group plc, which vest after three years provided that preset performance criteria, set by the Remuneration Committee of HMV Group plc, are met For awards up to and including grants made during the year ended 25 April 2009, vesting conditions were non-market related, primarily being Group earnings per share targets For the award granted during the year ended 30 April 2011, the vesting conditions also include a market related element, being relative total shareholder return The charge in respect of the PSP during the year ended 27 April 2013 was £nil (2012 £nil)

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

	2013	2013	2012	2012
	Share awards	Weighted average fair value	Share awards	Weighted average fair value
	Number	Pence	Number	Pence
Outstanding at beginning of period	-	-	796,809	89
Lapsed during the period	-	-	(796,809)	89
Outstanding at end of the period	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. Share-based payments (continued)

Equity-settled Performance Share Plan ('PSP') (continued)

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

Award date	Number of shares granted	Fair value Pence	Price at grant date Pence	Expected term Years	Expected dividend yield %	Expected volatility %	Risk free rate %	Vesting condition
7 July 2010	151,778	44	58	3	n/a	n/a	n/a	Non-market[1]
7 July 2010	151,777	30	58	3	6 1	42 2	1 55	Market[2]

[1] Earnings per share
[2] Total shareholder return

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

27. Contingent liabilities

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

The Company is a guarantor to the UK Parent company's US$57m bank loan facility Part of the security for this loan facility is a debenture on the assets of the Company, including the Waterstones brand

28. Pension arrangements

The Company's employees, until 28 June 2011, participated in the HMV Group Pension Scheme, which had two sections – the Pension Saver Section and the Pension Benefit Section In respect of the Pension Benefit Section, there was no contractual agreement or stated policy for charging the net defined benefit cost measured in accordance with IAS 19 to individual Group entities As a consequence, for both schemes, the Company recognised a pension cost equivalent to the contributions payable during the financial period

Following the separation of Waterstones from the HMV Group plc on 28 June 2011, the Waterstones Group Personal Pension Plan ('WGPPP') was introduced to mirror the arrangements that were in place for eligible staff under HMV The WGPPP is established under a Trust administered by Company Trustees The scheme provides members with individual pension saving accounts in their own name, with a range of investment options available Members can choose to pay from 2% to 6 5% of pensionable salary, with the members' contributions matched by Waterstones to a maximum of 6 5%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29. Obligations under leases

Obligations under operating leases

The Company operates entirely from properties in respect of which commercial operating leases have been entered into These leases have an average remaining duration of 5 years At the end of the period, future minimum rentals payable under non-cancellable operating leases were as follows

	Land and buildings		Other		Total	
	2013	2012	**2013**	2012	**2013**	2012
	£000	£000	**£000**	£000	**£000**	£000
Not later than one year	**46,564**	49,505	**136**	175	**46,700**	49,680
Between two and five years inclusive	**143,040**	156,324	**108**	138	**143,148**	156,462
After five years	**93,841**	110,315	**-**	-	**93,841**	110,315
	283,445	316,144	**244**	313	**283,689**	316,457

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

Obligations under finance leases

The Company has acquired certain plant and equipment under finance lease arrangements 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

	2013	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

	2013	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

30. Ultimate parent undertaking

The immediate parent undertaking and ultimate UK parent undertaking of the Company is Waterstones Holdings Limited The ultimate European parent undertaking of the Company 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 Waterstones Holdings Limited Copies of these financial statements can be obtained from the Company Secretary, 203-206 Piccadilly, London, W1J 9HD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31. Related party transactions

Transactions entered into and balances outstanding with related parties at the end of the period are as follows

	Services received from related party	Services rendered to related party	Amounts owed by related party	Amounts owed to related party
	£000	£000	£000	£000
With European parent undertaking				
2013				**5,960**
2012	-	-	-	5,434
With ultimate UK parent undertaking				
2013	-	-	-	**93,030**
2012	-	-	-	63,675
With fellow subsidiaries				
2013	-	**261**	**686**	**31,310**
2012	-	283	817	31,309

Included within amounts owed to related parties is £99 0m (2012 £69 1m) of intercompany loans, repayable on demand, on which interest is charged at the higher of 7% per annum or the base rate of Barclays plc at date of advance plus 4% No interest is charged on the remaining intercompany balances

The Company's employees until 28 June 2011, participated in the HMV Group Pension Scheme, which had two sections – the Pension Saver Section and the Pension Benefit Section In respect of the Pension Benefit Section, there was no contractual agreement or stated policy for charging the net defined benefit cost measured in accordance with IAS 19 to individual Group entities As a consequence, the Company recognised a pension cost equivalent to the contributions payable during the financial period

A number of share-based payment schemes were operated during the prior year by the ultimate parent undertaking, HMV Group plc, in which the Company's employees participated The Company recognised the transfer of equity instruments to its employees as share-based payment transactions within the scope of IFRS 2 *Share-based Payments* Further details are given in Note 26

Remuneration of key management personnel
The remuneration of the Directors of the Company is set out in Note 8