Company Number: 00610095

Waterstones Booksellers Limited

Report and Accounts

52 weeks ended 29 April 2017

COMPANY INFORMATION

DIRECTORS

A J Daunt
J Molloy
R D J Manning

SECRETARY

R D J Manning

REGISTERED OFFICE

203-206 Piccadilly
London
W1J 9HD

COMPANY NUMBER

00610095

AUDITORS

Ernst & Young LLP
1 Colmore Square
Birmingham
B4 6HQ

STRATEGIC REPORT

Principal activities

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

Review of the business

The Company is part of the Waterstones Group which 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.

Waterstones continues to follow the same strategy that it adopted following its acquisition from HMV Group in June 2011. It seeks to improve the standards of bookselling within its shops by training and enhanced career development of its booksellers, and supports this with investment in the shops themselves and the operational infrastructure. Capital investment has increased from the prior year at £9.5m (2016: £9.0m). Four new shops were opened, all of which are trading successfully, and a further 21 café's were added to the Café W estate.

Sales for the 52 week period ended 29 April 2017 were £388.0m (53 week period ended 30 April 2016: £394.7m), which, combined with continued improvement in operational efficiencies and margin improvements, resulted in an operating profit before exceptional items of £24.5m, an improvement from a profit of £19.1m in the prior period. Operating exceptional costs totalled £nil (2016: £2.1m) comprising £nil (2016: £2.1m) impairment of plant and equipment.

The profit after taxation amounted to £17.8m (2016: £18.9m). No dividend was paid during the period and the Directors recommend that no final dividend be declared with the profit being transferred to reserves.

During the period under review, 5 shops were closed and 4 shops were opened, resulting in a total estate of 269 shops at 29 April 2017 (2016: 270).

Principal risks and uncertainties

The principal risks relevant to the Company 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 Company's and key suppliers' supply chains;

(vi) a failure to sustain or protect the Company'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 of, and subsequent monitoring of performance against, the Waterstones Group's strategic and operational plans and policies.

On behalf of the Board

A J Daunt
Director
25 July 2017

DIRECTORS' REPORT

The Directors submit their report and audited financial statements for the 52 weeks ended 29 April 2017, which were approved on behalf of the Board on 25 July 2017.

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 (2016: £nil).

Future developments

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

Subsequent events

There have been no subsequent events in the period from 29 April 2017 to the date of signing the accounts.

Financial risk factors

The Company's exposure to and management of liquidity risk, interest rate risk, credit risk and foreign exchange risk is set out in Note 23.

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 Company had 56 (2016: 54) days' purchases outstanding as payable at 29 April 2017.

Employee policies

The Company operates a decentralised HR function. This provides greater accountability to employees and aids the development of flexible and entrepreneurial book teams that can thrive under the competitive market pressures that the Company 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 Company through the intranet site "Watson" where employees are encouraged to present their questions, suggestions and views. Employees have an opportunity to share directly in the success of the business through an all employee bonus scheme.

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

Disabled employees

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

DIRECTORS' REPORT (CONTINUED)

Donations

The Company made charitable donations of £280,000 (2016: £1,161,000) in the period under review.

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:

(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.

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 the ultimate European parent undertaking, Lynwood Investments CY Limited and A L Mamut, a Director of the immediate parent undertaking, Waterstones Holdings Limited, 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

A J Daunt
Director
25 July 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the Financial Statements and Accounts 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 the financial performance and the cash flows of the Company for that period. In preparing those financial statements, the Directors are required to:

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

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

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

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

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

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

We confirm that, to the best of our knowledge:

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

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

On behalf of the Board

A J Daunt
Director
25 July 2017

J Molloy
Director
25 July 2017

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF WATERSTONES BOOKSELLERS LIMITED

We have audited the financial statements of Waterstones Booksellers Limited for the 52 weeks ended 29 April 2017, 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 auditors' 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 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 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 Company's affairs as at 29 April 2017 and of its profit 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 matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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

Nigel Meredith (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham
Date: 27 July 2017

INCOME STATEMENT

For the 52 weeks ended 29 April 2017 and 53 weeks ended 30 April 2016

	Notes	Before exceptional items 2017 £000	Exceptional items 2017 £000	Total 2017 £000
Revenue	3	**387,973**	**-**	**387,973**
Cost of sales		**(348,802)**	**-**	**(348,802)**
Gross profit		**39,171**	**-**	**39,171**
Administrative expenses		**(14,701)**	**-**	**(14,701)**
Operating profit	4	**24,470**	**-**	**24,470**
Finance income	9	**53**	**-**	**53**
Finance costs	10	**(5,366)**	**-**	**(5,366)**
Profit before taxation		**19,157**	**-**	**19,157**
Taxation	11	**(1,381)**	**-**	**(1,381)**
Profit for the period		**17,776**	**-**	**17,776**

	Notes	Before exceptional items 2016 £000	Exceptional items 2016 £000	Total 2016 £000
Revenue	3	394,732	-	394,732
Cost of sales	6	(352,507)	(2,056)	(354,563)
Gross profit		42,225	(2,056)	40,169
Administrative expenses		(23,143)	-	(23,143)
Operating profit	4	19,082	(2,056)	17,026
Finance income	9	70	-	70
Finance costs	10	(6,223)	-	(6,223)
Profit before taxation		12,929	(2,056)	10,873
Taxation	11	8,072	-	8,072
Profit for the period		21,001	(2,056)	18,945

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 29 April 2017, whilst the comparative period covered the 53 weeks ended 30 April 2016.

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 29 April 2017 and 53 weeks ended 30 April 2016

	2017	2016
	£000	£000
Profit for the period attributable to the shareholders of the Company	**17,776**	18,945
Total comprehensive income for the period attributable to the shareholders of the Company	**17,776**	18,945

BALANCE SHEET

	Notes	As at 29 April 2017 £000	As at 30 April 2016 £000
Assets			
Non-current assets			
Plant and equipment	12	**48,971**	52,336
Intangible assets	13	**1,618**	1,912
Investments in subsidiaries	14	**27,261**	27,261
Deferred tax asset	11	**6,691**	8,072
		84,541	89,581
Current assets			
Inventories	16	**58,223**	56,450
Trade and other receivables	15	**34,588**	34,985
Current tax receivable		**96**	-
Cash and short-term deposits	17	**24,566**	18,519
		117,473	109,954
Total assets		**202,014**	199,535
Liabilities			
Non-current liabilities			
Amounts due to parent undertakings	18	**(72,734)**	(86,056)
Interest bearing loans and borrowings	20	**-**	(528)
Provisions	21	**(1,181)**	(1,323)
		(73,915)	(87,907)
Current liabilities			
Amounts due to parent undertakings	18	**(7,520)**	-
Trade and other payables	19	**(115,376)**	(124,606)
Interest bearing loans and borrowings	20	**(528)**	(528)
Provisions	21	**(1,301)**	(2,096)
		(124,725)	(127,230)
Total liabilities		**(198,640)**	(215,137)
Net assets (liabilities)		**3,374**	(15,602)
Equity			
Share capital	25	**71,014**	71,014
Other reserves	26	**1,200**	-
Accumulated losses		**(68,840)**	(86,616)
Total equity		**3,374**	(15,602)

The financial statements were approved by the Board of Directors on 25 July 2017 and were signed on its behalf by:

A J Daunt
Director

J Molloy
Director

STATEMENT OF CHANGES IN EQUITY

	Share capital	Other Reserves	Accumulated losses	Total
	£000	£000	£000	£000
At 25 April 2015	71,014	-	(105,561)	(34,547)
Profit for the period	-	-	18,945	18,945
Total comprehensive income	-	-	18,945	18,945
At 30 April 2016	**71,014**	**-**	**(86,616)**	**(15,602)**
Profit for the period	-	-	17,776	**17,776**
Total comprehensive income	-	-	17,776	**17,776**
Share based awards	-	**1,200**	-	**1,200**
At 29 April 2017	**71,014**	**1,200**	**(68,840)**	**3,374**

CASH FLOW STATEMENT

For the 52 weeks ended 29 April 2017 and 53 weeks ended 30 April 2016

	Notes	2017 £000	2016 £000
Cash flows from operating activities			
Profit before tax		19,157	10,873
Net finance costs		5,313	6,153
Operating profit		24,470	17,026
Depreciation and amortisation	12,13	12,406	13,844
Impairment charges	12	-	2,056
Loss on disposal of plant and equipment	4	492	1,075
Equity settled share awards		1,200	-
Net foreign exchange losses	4	484	424
		39,052	34,425
Movement in inventories		(1,773)	(6)
Movement in trade and other receivables		397	482
Movement in amounts due to parent undertakings		12,378	(21,156)
Movement in trade and other payables		(8,623)	(1,553)
Movement in provisions		(651)	(601)
Cash generated from operations		40,780	11,591
Income tax paid		(96)	-
Net cash flows from operating activities		40,684	11,591
Cash flows from investing activities			
Purchase of plant and equipment and intangible assets		(10,132)	(9,274)
Proceeds from disposal of plant and equipment		-	10
Interest received		53	70
Net cash flows from investing activities		(10,079)	(9,194)
Cash flows from financing activities			
Interest paid		(24,049)	(39)
Repayment of capital element of finance leases		(528)	(528)
Net cash flows from financing activities		(24,577)	(567)
Net increase in cash and cash equivalents	24	6,028	1,830
Opening cash and cash equivalents	17	18,519	16,594
Effects of exchange rate changes		19	95
Closing cash and cash equivalents	17	24,566	18,519

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 29 April 2017 were authorised for issue by the Board on 25 July 2017 and the Balance Sheet was signed on the Board's behalf by A J Daunt and J Molloy. Waterstones Booksellers Limited is incorporated and domiciled in England and Wales.

2. Accounting policies

Basis of preparation

The 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 Company for the 52 weeks ended 29 April 2017 and in accordance with the provisions of the Companies Act 2006.

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 29 April 2017, whilst the comparative period covered the 53 weeks ended 30 April 2016.

The financial statements have been prepared on a historical cost basis. The financial statements are prepared in pounds sterling and all values are rounded to the nearest thousand (£000) except when otherwise indicated.

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

The 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 European parent undertaking, Lynwood Investments CY Limited and A L Mamut, a Director of the immediate parent undertaking, Waterstones Holdings Limited, 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.

Revenue

Revenue represents the value of goods supplied, net of discounts given and returns, and is recognised when goods are delivered and title has passed. Revenue excludes value added tax ("VAT") and similar sales-related taxes.

The Company operates a customer loyalty scheme which allows customers to accumulate points when they purchase goods from the Company. Consideration received is allocated to the points equal to their fair value. The fair value of the points issued is deferred and recognised as revenue when the points are redeemed based on the number of points redeemed relative to the number of points expected to be redeemed.

Dividend and interest income

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting policies (continued)

Exceptional items

The Company presents as exceptional items on the face of the income statement those material items of income and expense which, because of the nature, expected infrequency or quantum of the events giving rise to them, merit separate presentation. This allows shareholders to better understand the elements of financial performance in the 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.

Investments in subsidiaries

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

Foreign currency translation

Transactions and balances

Transactions and balances are initially recorded by the Company 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 rates at the reporting date.

All differences arising on settlement or retranslation of monetary items are taken to the income statement.

Plant and equipment

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

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

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

The annual rates used are:

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

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

Intangible assets

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

Costs recognised as assets will be amortised over their estimated useful lives of 5 years using the straight line method.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting policies (continued)

Impairment of non-financial 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 to the carrying value it would have been if the impairment had not been recognised in prior years. A reversal of an impairment loss is recognised immediately in the income statement. An impairment loss in respect of goodwill is not reversed.

Leases

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

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

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.

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.

Cash and short term deposits

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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting policies (continued)

Taxation

Current tax

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

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

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

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

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

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised, except when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting policies (continued)

Share-based payments

The Company has made an equity-settled non-market share-based award to a Director. The performance award would be the entitlement to a proportion of the fully diluted issued share capital of the Waterstones Group, or in certain circumstances to a cash payment. The share based award has been valued based on the anticipated cash entitlement in the absence of an objectively reliable method to value the business.

The value is recognised as an expense over the vesting period by calculating the cumulative expense and recognising the movement in the cumulative expense in the Income Statement. A corresponding entry is made to equity.

Pension costs

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

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:

Revenue recognition in respect of customer loyalty schemes - revenue recognition is based on the number of points redeemed relative to the number of points expected to be redeemed. This calculation requires judgements to be made regarding future points redemption which are based on historical redemption patterns.

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

Inventory valuation – inventories are valued at the lower of cost and net realisable value, which includes, where necessary, provisions for slow moving and obsolete inventory. Calculation of provisions requires judgements to be made regarding future customer demand, future sales prices and inventory loss trends. Historical sales performance statistics are used in the formulation of these judgements.

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

Provisions – Provisions for store closures, 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. Key assumptions for the estimated costs and timing of future cash flows are those regarding revenue, margin, operating costs, dilapidations, rental income and the discount rate.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting policies (continued)

New accounting standards

The Company has adopted the following amended accounting standards which were mandatory for the first time for the financial period ending 29 April 2017. They have no material impact on the Company.

- IFRS 7 Financial instruments: Amendments resulting from September 2014 Annual Improvements to IFRSs;
- IFRS 10 Consolidated financial statements: Amendments regarding the application of the consolidation exception;
- IAS 1 Presentation of financial statements: Amendments resulting from the disclosure initiative;
- IAS 16 Property, plant and equipment: Amendments regarding the clarification of acceptable methods of depreciation and amortisation and Amendments bringing bearer plants into the scope of IAS 16;
- IAS 27 Separate financial statements: Amendments reinstating the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements; and
- IAS 38 Intangible fixed assets: Amendments regarding the clarification of acceptable methods of depreciation and amortisation.

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

- IFRS 2 Share based payment: Classification and measurement of share-based payment transactions, effective for annual periods beginning on or after 1 January 2018;
- IFRS 9 Financial instruments: Original issue, effective for annual periods beginning on or after 1 January 2018;
- IFRS 15 Revenue from contracts with customers: Original issue, following amendment effective for annual periods beginning on or after 1 January 2018; and Clarifications to IFRS 15, effective for annual periods beginning on or after 1 January 2018;
- IFRS 16 Leases: Original issue, effective for annual periods beginning on or after 1 January 2019;
- IAS 7 Statement of Cash Flows: Amendments as a result of the disclosure initiative, effective for annual periods beginning on or after 1 January 2017;
- IAS 12 Income Taxes: Amendments regarding the recognition of deferred tax assets for unrealised losses, effective for annual periods beginning on or after 1 January 2017;
- IFRIC 22 — Foreign Currency Transactions and Advance Consideration, effective for annual periods beginning on or after 1 January 2018; and
- IFRIC 23 — Uncertainty over Income Tax Treatments, effective for annual periods beginning on or after 1 January 2019.

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

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.

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Company's financial statements with the exception of IFRS 15 Revenue from contracts with customers and IFRS 16 Leases. The Company is yet to complete its assessment of the impact of IFRS 15. IFRS 16 is expected to have a material impact on the Company's Balance Sheet and Income Statement for the year ended 25 April 2020, however, the Company is yet to complete its assessment of the impact of this new standard.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Revenue

Revenue disclosed in the income statement is analysed as follows:

	2017 £000	2016 £000
Sale of goods – UK	**387,973**	394,732
	387,973	394,732

4. Operating profit

Operating profit is stated after charging (crediting):

	2017 £000	2016 £000
Depreciation and amortisation (see Notes 12 and 13)	**12,406**	13,844
Impairment charges (see Note 12)	**-**	2,056
Loss on disposal of plant and equipment	**492**	1,075
Cost of inventories recognised as an expense	**184,497**	187,437
Movement in inventory provision	**(167)**	1,223
Net foreign exchange losses	**484**	424
Operating lease rentals:		
Minimum rentals	**46,194**	49,425
Percentage rentals	**87**	96
Sublease rentals	**(547)**	(605)

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.

5. Fees to auditors

	2017 £000	2016 £000
Audit of the financial statements	**122**	110
Tax advisory	**-**	13
Non audit services	**5**	5

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

6. Exceptional items (before taxation)

Charged in arriving at operating profit:

	2017 £000	2016 £000
Impairment of plant and equipment	**-**	(2,056)
	-	(2,056)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Exceptional items (before taxation) (continued)

Included within Cost of sales:-

Impairment charges for plant and equipment of £nil (2016: £2,056,000) following a review of the carrying value based on prevailing market conditions.

7. Directors' emoluments

	2017 £000	2016 £000
Emoluments	**1,866**	7,493
Pension contributions	**16**	17
	1,882	7,510

Two (2016: two) of the Directors are accruing benefits under the Company's defined contribution pension arrangements.

In the current year, the Company has made an equity-settled non-market share-based award to a Director. The performance award would be the entitlement to a proportion of fully diluted issued share capital of the Waterstones Group, or in certain circumstances to a cash payment. The share based award has been valued based on the anticipated cash entitlement in the absence of an objectively reliable method to value the business.

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

	2017 £000	2016 £000
Emoluments	**1,430**	7,241
Pension contributions	**-**	1
	1,430	7,242

8. Employee costs

	2017 £000	2016 £000
Employee costs, including Directors' emoluments:		
Wages and salaries	**48,738**	51,233
Social security costs	**3,486**	4,159
Other pension costs	**1,388**	1,417
	53,612	56,809

Included in wages and salaries is a total expense of £1,200,000 (2016: £nil) which arises from transactions accounted for as equity settled share based awards. The performance award would be the entitlement to a proportion of fully diluted issued share capital of the Waterstones Group, or in certain circumstances to a cash payment. The share based award has been valued based on the anticipated cash entitlement in the absence of an objectively reliable method to value the business.

The average monthly number of people employed by the Company during the period was 3,195 (2016: 2,922).

9. Finance income

	2017 £000	2016 £000
Bank interest receivable	**53**	70
Total finance income	**53**	70

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. Finance costs

	2017 £000	2016 £000
External loans and overdrafts	**37**	39
Interest payable to group undertakings	**5,329**	6,184
Total finance costs	**5,366**	6,223

11. Taxation

	2017 £000	2016 £000
Taxation recognised in the income statement:		
Deferred tax, current year	**(380)**	(8,072)
Deferred tax, prior year	**1,761**	-
Total taxation charge (credit) in the income statement	**1,381**	(8,072)

The standard rate of UK corporation tax was reduced from 20% to 19% from 1 April 2017. Further, the Finance Act 2016 reduced the main rate of corporation tax to 17% from 1 April 2020. Current tax has therefore been provided at 19.92% (2016: 20%) and deferred tax at 17% or 19% (2016: 19%), the rates expected to be effective when the deferred tax assets are anticipated to be utilised.

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

	2017 £000	2016 £000
Profit before taxation	**19,157**	10,873
Corporation tax at UK average statutory rate of 19.92% (2016: 20.0%)	**3,816**	2,175
Effects of:		
Expenses not deductible for tax purposes	**433**	746
Short term timing differences	**-**	(494)
Tax rate differences	**603**	-
Utilisation of previously unrecognised tax losses	**(3,829)**	(2,427)
Recognition of deferred tax asset	**(1,403)**	(8,072)
Adjustment in respect of prior periods	**1,761**	-
Total tax charge (credit)	**1,381**	(8,072)

Deferred tax

Provided deferred tax

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

	2017 £000	2016 £000
Accelerated capital allowances	**5,288**	8,072
Other temporary differences	**1,403**	-
	6,691	8,072

There are no provided deferred tax liabilities.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. Taxation (continued)

Deferred tax (continued)

Unprovided deferred tax

There are no unprovided deferred tax liabilities.

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

	2017	2016
	£000	£000
Other temporary differences	-	12
Tax losses	-	1,208
	-	1,220

The deferred tax assets were not recognised in the prior year since there was no persuasive evidence that there would be suitable taxable profits against which the timing differences would reverse. The assets would be recoverable when the realisation of the related tax benefit through future taxable profits is probable.

Factors that may affect future tax charges

The Finance Act 2016 reduced the main rate of corporation tax to 19% from 1 April 2017 and 17% from 1 April 2020.

12. Plant and equipment

	Plant and equipment
	£000
Cost at 25 April 2015	214,743
Disposals	(49,530)
Additions	8,545
Cost at 30 April 2016	173,758
Disposals	(4,345)
Additions	9,339
Cost at 29 April 2017	**178,752**
Depreciation at 25 April 2015	154,454
Charge for period	13,349
Impairment loss	2,056
Disposals	(48,437)
Depreciation at 30 April 2016	121,422
Charge for period	11,926
Disposals	(3,567)
Depreciation at 29 April 2017	**129,781**
Net book value at 29 April 2017	**48,971**
Net book value at 30 April 2016	52,336

During the year certain assets were re-classified from plant and equipment to intangible fixed assets (see Note 13).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Plant and equipment (continued)

In the prior year plant and equipment was written down by £2,056,000 following an impairment review based on prevailing market trading conditions. The recoverable amounts of assets were determined from value in use calculations that incorporated five-year cash flow estimates discounted at an appropriate pre-tax discount rate of 10%. Key assumptions for the value in use calculations were those regarding revenue, margin, operating costs and discount rate. The cash flows reflected management's best estimates of revenue, margin, operating costs and discount rate over the forecast period and no reasonably possible change in assumptions would have resulted in further impairment. The total recoverable amount of the assets impaired was £nil.

13. Intangible assets

	Goodwill	Website Costs	Software costs	Total
	£000	£000	£000	£000
Cost at 25 April 2015	69,347	875	2,140	72,362
Additions	-	90	324	414
Cost at 30 April 2016	69,347	965	2,464	72,776
Additions	-	-	186	186
Cost at 29 April 2017	**69,347**	**965**	**2,650**	**72,962**
Depreciation at 25 April 2015	69,347	42	980	70,369
Charge for period	-	192	303	495
Depreciation at 30 April 2016	69,347	234	1,283	70,864
Charge for period	-	193	287	480
Depreciation at 29 April 2017	**69,347**	**427**	**1,570**	**71,344**
Net book value at 29 April 2017	-	**538**	**1,080**	**1,618**
Net book value at 30 April 2016	-	731	1,181	**1,912**

During the year certain assets were re-classified from plant and equipment to intangible fixed assets (see Note 12).

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

14. Investments in subsidiaries

	Cost	Provision	Net book value
	£000	£000	£000
At 29 April 2017	**27,261**	-	**27,261**
At 30 April 2016	27,261	-	27,261

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

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

The registered address of all subsidiaries is 203-206 Piccadilly, London, W1J 9HD.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. Trade and other receivables

	2017 £000	2016 £000
Current:		
Trade receivables	**1,064**	824
Amounts owed by fellow subsidiary undertakings	**530**	817
Other receivables	**3,119**	2,663
Prepayments and accrued income	**29,875**	30,681
	34,588	34,985

The carrying value of trade and other receivables approximates to fair value. Trade receivables are stated net of a provision for impairment of £24,000 (2016: £38,000). Trade receivables are non-interest bearing and are generally on 30 day terms. Other receivables are also non-interest bearing. Amounts owed by fellow subsidiary undertakings are non-interest bearing with no fixed repayment date.

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.

16. Inventories

Inventories primarily comprise finished goods and goods for resale. The replacement cost of inventories is considered to be not materially different from the balance sheet value.

17. Cash and short-term deposits

	2017 £000	2016 £000
Cash at bank and in hand	**24,566**	18,519
	24,566	18,519

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

18. Amounts due to group undertakings

	2017 £000	2016 £000
Non-current		
Amounts owed to UK parent undertaking	**72,734**	79,425
Amounts owed to ultimate European parent undertaking	-	6,631
	72,734	86,056
Current:		
Amounts owed to fellow subsidiary undertakings	**7,520**	-
	7,520	-

The amounts owed to the UK parent undertaking are repayable by 22 June 2021. Interest is chargeable on £38,118,000 (2016: £44,335,000) of this balance at 7.28% and on £34,616,000 (2016: £35,090,000) of this balance at 7%.

The amounts owed to the ultimate European parent undertaking are repayable on or before 1 January 2018. 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%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. Trade and other payables

	2017 £000	2016 £000
Current:		
Trade payables	**28,383**	27,860
Amounts owed to fellow subsidiary undertakings	**31,329**	31,329
Other payables	**37,500**	47,486
Accruals and deferred income	**18,164**	17,931
	115,376	124,606

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

Amounts owed to fellow subsidiary undertakings are non-interest bearing with no fixed repayment date.

20. Interest bearing loans and borrowings

	2017 £000	2016 £000
Non-current:		
Obligations under finance leases (see Note 29)	-	528
	-	528
Current:		
Obligations under finance leases (see Note 29)	**528**	528
	528	528

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

21. Provisions

	Total £000
At 30 April 2016	3,419
Provisions created in the period	415
Provisions utilised	(1,125)
Provisions released	(227)
At 29 April 2017	**2,482**
Analysed as:	
Current	**1,301**
Non-current	**1,181**
	2,482

Provisions almost entirely consist of amounts in respect of onerous leases, store closures and restructuring. Of the total provisions, £320,000 (2016: £63,000) is expected to be utilised after 5 years from the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 29 April 2017 was £nil (2016: £nil).

The total notional amount of outstanding foreign currency contracts to which the Company was committed at 29 April 2017 was £nil (2016: £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 Company had sufficient funds and facilities available to satisfy its current requirements.

The Company has access to funding facilities from its parent undertaking Waterstones Holdings Limited.

Analysis of the maturity profile of the Company's financial liabilities at 29 April 2017 and 30 April 2016 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	-	140	420	-	-	560
Trade and other payables	13,459	101,917	-	-	-	115,376
Amounts due to parent undertakings	-	-	7,520	72,734	-	80,254
At 29 April 2017	**13,459**	**102,057**	**7,940**	**72,734**	**-**	**196,190**
Finance leases	-	140	420	560	-	1,120
Trade and other payables	12,155	112,451	-	-	-	124,606
Amounts due to parent undertakings	-	-	-	6,631	79,425	86,056
At 30 April 2016	12,155	112,591	420	7,191	79,425	211,782

Interest rate risk

The Company is exposed to interest rate risk from its borrowings and cash deposits. However, the strong seasonality of the Company's trading pattern provides a partial 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 it has with its parent undertaking.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. Financial risk factors (continued)

Foreign exchange risk

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

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

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

Sensitivity analysis

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

Interest rate sensitivity

Based on the Company's net funds position at the year end, and including interest bearing intercompany loans, a 100 basis points movement in interest rates would affect the Company's result before tax and shareholders' equity by approximately £0.6m (2016: £0.7m).

Foreign exchange rate sensitivity

A 10% change in the value of Euro against Sterling would affect the Company's result before tax and shareholders' equity by approximately £0.8m (2016: £0.6m). A 10% change in the value of US Dollar against Sterling would affect the Company's result before tax and shareholders' equity by approximately £nil (2016: £0.1m).

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 cash and cash equivalents (see Note 17), loans and borrowings through its intra-group facilities (see Note 18) and external sources (see Note 20) and equity attributable to the parent company (see Note 25).

24. Additional cash flow information

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

	At 30 April 2016	Cash flow	Other non-cash changes	At 29 April 2017
	£000	£000	£000	£000
Cash at bank and in hand	18,519	6,028	19	24,566
Cash and cash equivalents	18,519	6,028	19	24,566
Loans and borrowings – non-current	(528)	-	528	-
Loans and borrowings – current	(528)	528	(528)	(528)
Total loans and borrowings	(1,056)	528	-	(528)
Net funds	17,463	6,556	19	24,038

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. Additional cash flow information (continued)

	At 25 April 2015 £000	Cash flow £000	Other non-cash changes £000	At 30 April 2016 £000
Cash at bank and in hand	16,594	1,830	95	18,519
Cash and cash equivalents	16,594	1,830	95	18,519
Loans and borrowings – non-current	(1,056)	-	528	(528)
Loans and borrowings – current	(528)	528	(528)	(528)
Total loans and borrowings	(1,584)	528	-	(1,056)
Net funds	15,010	2,358	95	17,463

Other non-cash changes represent movements in finance lease funding and foreign exchange rate changes during the year.

25. Share capital

	2017 Number '000	2016 Number '000	2017 £000	2016 £000
Authorised				
Ordinary Shares of £1 each	**121,014**	121,014	**121,014**	121,014
Allotted, called up and fully paid				
Ordinary Shares of £1 each	**71,014**	71,014	**71,014**	71,014

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

26. Other reserves

The reserve has arisen as a result of the anticipated equity settled share based award, see Note 7.

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 a $63m bank loan facility held by the ultimate European Parent company. Part of the security for this loan facility is a debenture on the Waterstones brand.

28. Pension arrangements

The Waterstones Group Personal Pension Plan ("the 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 a percentage 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 leases stores under non-cancellable operating lease agreements that are generally subject to periodic rent review. These agreements provide for either, or both, minimum rentals and percentage rentals based on sales performance. No operating lease commitments disclosures are required for percentage rental arrangements, as future lease payments represent contingent rental payments

These leases have an average remaining duration of five years.

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

	Land and buildings		Other		Total	
	2017	2016	**2017**	2016	**2017**	2016
	£000	£000	**£000**	£000	**£000**	£000
Expiry:						
Not later than one year	**42,730**	43,406	**174**	108	**42,904**	43,514
Later than one year and not later than five years	**110,834**	110,373	**97**	126	**110,931**	110,499
Later than five years	**88,181**	78,800	**-**	-	**88,181**	78,800
	241,745	232,579	**271**	234	**242,016**	232,813

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 29 April 2017 was £725,000 (2016: £2,366,000).

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:

	2017	2016
	£000	£000
Payable:		
Not later than one year	**560**	560
Between two and five years inclusive	**-**	560
	560	1,120
Less: finance charges allocated to future periods	**(32)**	(64)
Present value of minimum lease payments	**528**	1,056

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

	2017	2016
	£000	£000
Payable:		
Not later than one year	**528**	528
Between two and five years inclusive	**-**	528
	-	1,056

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30. Related party transactions

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

	Net interest accrued during the period	Services rendered to related party	Fixed assets transferred to related party	Goods sold to related party
	£000	£000	£000	£000
With ultimate European parent undertaking:				
Lynwood Investments CY Limited				
2017	**(386)**	**-**	**-**	**-**
2016	(344)	-	-	-
With ultimate UK parent undertaking:				
Waterstones Holdings Limited				
2017	**(4,943)**	**-**	**-**	**-**
2016	(5,840)	-	-	-
With fellow subsidiary undertakings:				
Waterstones Booksellers Ireland Limited				
2017	**-**	**211**	**-**	**408**
2016	-	208	7	354
Waterstone's Booksellers Amsterdam B.V.				
2017	**-**	**46**	**-**	**68**
2016	-	50	1	69
Waterstone's Booksellers Belgium SA				
2017	**-**	**47**	**-**	**50**
2016	-	49	2	61

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30. Related party transactions (continued)

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

	Amounts owed by related party £000	Amounts owed to related party £000
With ultimate European parent undertaking:		
Lynwood Investments CY Limited		
2017	-	**(7,520)**
2016	-	(6,631)
With ultimate UK parent undertaking:		
Waterstones Holdings Limited		
2017	-	**(72,734)**
2016	-	(79,425)
With fellow subsidiary undertakings:		
Waterstones Booksellers Ireland Limited		
2017	**382**	-
2016	489	-
Waterstone's Booksellers Amsterdam B.V.		
2017	**71**	-
2016	113	-
Waterstone's Booksellers Belgium SA		
2017	**77**	-
2016	215	-
Hatchards UK Limited		
2017	-	**(20,000)**
2016	-	(20,000)
Ottakar's Limited		
2017	-	**(196)**
2016	-	(196)
Waterstones Overseas Limited		
2017	-	**(11,133)**
2016	-	(11,133)

See Notes 15, 18 and 19 for details of the terms and conditions relating to the related party balances.

The Company is a guarantor to a $63m bank loan facility held by the ultimate European parent company. Part of the security for this loan facility is a debenture on the Waterstones brand.

Remuneration of key management personnel

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31. Ultimate parent undertaking

The immediate parent undertaking of the Company is Waterstones Holdings Limited.

The ultimate parent company is Alpha Global (PTC) Limited, registered in the British Virgin Islands, formerly known as Alpha Trustees Limited, formerly registered in Nevis. The ultimate beneficial owner of the Company is Nicolay Mamut who is currently the sole beneficiary of the trust held by Alpha Global (PTC) Limited.

The largest and smallest group, including the Company, for which consolidated accounts are prepared 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.